FINANCIAL TIMES

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Congo

What it means for Africa

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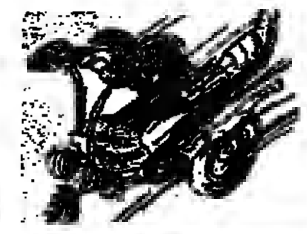

Business Travel

Life in the fast lane

John Griffiths, Page 12

Today's survey

Turkey

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World Business Newspaper http://www.FT.com MONDAY MAY 26 1997

Markets regulator in US considers radical reforms

The Securities and Exchange Commission, the US financial regulator, is considering the most sweeping revision of its powers in its 63-year history, in responsa to the growing influence of online trading and alternative stock exchanges. The changes could encourage the formation of stock exchanges on the internet, cut the regulatory burden on small exchanges and allow the nation's largest markets more flexibility in offering new products. Page 16; Call for European extranet, Page 11

Citicorp, the US bank, has abandoned plans to buy a fund management business and instead has recruited Peter Carman, former head of equities at Boston-based Putnam Investments, to be its chief investment officer, in the hope that he will attract other high-powered money managers. Page 17

Cuba defiant in hardline stance: Cuba's ruling Communist party, turning a deaf ear to international calls for political reform, has published a policy document asserting that one-party socialism is the island's only effective defence against US hostility. Page 4

Army coup in Sierra Leone: Junior officers in Freetown announced the overthrow of the civilian administration of Sierra Leone'e president Ahmed Tejan Kabbah, ending a short-lived experiment with democracy. Page 4

Brussels may curb state aid to industry

The amount of state aid that European governments give to industry would be cut sharply if tough proposals drawn up by the European Commission come into force. As part of a proposed crackdown on e recent rise in state aid levels, Karel Van Miert, left, competition commissiooer, is targeting government subsidies to industry in the European Union's oeedy regions. Page 2

Bank Handlowy, one of Poland's largest banks, could be valued as high as $1bo when it goes on sale today in central Europe's largest privatisation of e financial institution. Page 17

Formula One float still a rinner: Plans for the $3.2bn flotation of Formule One Holdings, the motor racing series controlled by Bernie Ecclestone, were still on track in spite of a row with racing teams over terms. Page 16

Serbian banks combine: In an effort to restructure Serbia's ailing banking system, the state-owned Beogradska Banka has announced the formetion of a group of at least 20 banks. Page 17; Bank to borrow, Page 18

Fire kills 130 looters: Arsonists set fire to e shopping mall in Banjarmasin on the island of Borneo, killing et least 130 looters who had charged inside during a political riot in the Indonesian election campaign, police said.

Romania receives neighbour: Hungary's president Arpad Goencz arrived in the Romanian capital of Bucharest on the first visit hy a head of state in the history of the two countries. His host, Emil Constantinescu, said it was "e symbol in this troubled zone of the Balkans".

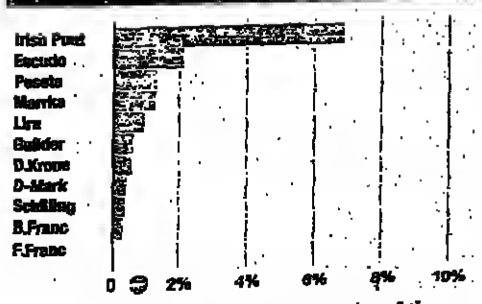
Acceptance for Taliban: Pakistan became the first country to recognise the Taliban Islamic militia as Afghanistan'e government. Taliban success stirs fears, Page 3

France searches for missing coins: Officials at the *Monnaie de Paris*, the body responsihle for minting French coins, have launched an inquiry into why large quantities of coins are disappearing from circulation. Page 2

England cricket sweep: England completed an unexpected 3-0 sweep of Australie in one-day cricket internationals, comfortahly overhauling Australia's 269 with six wickets to spare. The win gave England their first series win over Australia since taking the Ashes and the World Series Cup one-dey event in a 1986/87 tour.

European monetary system: Tha EMS grid remained static last week, with only the Irish punt moving. The punt fell back, to below 7 per cent eway from its central rate within the exchange rate mechanism. Currencies, Page 27

EMS: Grid May 23, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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China's fledgling tourists spread their wings

By James Harding in Shanghai

Mrs Jiang and her family have just got back from holiday and are unpacking their swimming trunks and sun cream after a week on Thailand's beaches.

Mrs Jiang's hushand, e retired electrician living off e modest fortune from Shanghai property, wishes more of his countrymen could take a vacation abroad.

"China's seaside is yellowy brown, hut Thailand'e waters are clear and fresh. More Shanghainese should get the chance to see the real sea," he says. It was hardly a pioneering trip, but the Jiangs are in the vanguard of the mainland Chinese holidaymakers set to change the face of interneational tourism.

When Shaoghai's China International Travel Service, one of many travel agents in China's most cosmopolitan city, started offering trips to Thailand, Malaysia and Singapora in 1994 just 300 people signed up for bolidays abroad.

Last year, 3,000 Shanghainese went for a week in the sun. Mr Song Chaoqi, general manager of the agency, says: "Overseas tourism is developing very fast. In the old days people saved all their money. Now spending money is fashionable and they want to get away for some relaxation."

Foreign travel was usually prohibited in Mao's China, and in the early years of China's reforms neighbouring countries were reluctant to host Chinese visitors, fearing millons might never leave.

But as China's urban elite has grown more affluent, some Asian countries have started offering tourist visas.

Now Japan and Australia are considering granting visas to Chinese package holidaymakers, banking on a potentially vast source of revenue.

Most of the 5.06m Chinese people who left the country last year were travelling on official business.

The days of young Chinese backpacking abroad are still a long wey off. Passports – let alone visas – are not yet freely availehle. But some 1.64m peopla went on trips organised by travel companies and a growing proportioo of them are paying their own way.

This year, Thailand is the tourist hot-spot for wealtby mainland Chinese. For Yn5,800 ($698) CITS offers a one-week package trip including four or five days on the beach, two nights in Bangkok, a day's sbopping and a Thai cabaret evening.

The typical Chinese holidaymaker is not interested in suntans or sex, like many western tourists. "The philosophy is speod less money, see more places. They want to hurry from one sigbt-seeing spot to another," Mr Song says.

Beijing has made great efforts to attract foreign visitors – 1997 is "Visit China" year – but has only just started to address the rapid growth in tourists from China. The government is quietly concerned about the potential loss of foreign exchange, and, according to proposals being considered by the tourism ministry, "the number of Chinese visitors going abroad should be controlled".

France turns to the left in first round of election and leaves contest wide open

French poll rebuffs the government

By David Buchan, Andrew Jack and David Owen in Paris

Background to election —Page 2

French voters yesterday delivered a stinging rebuff to the ruling centre-right coalition in the first round of the country's parliamentary elections, according to early exit polls.

Parties of the centre-right polled less than the combined forces of the left, eccording to the first voter surveys.

The far-right Netional Front looked set to benefit from protest voting, scoring an estimated 15 per cent.

If confirmed, the first-round result would turn the crucial run-off election on June 1 – when most of the 577 National Assembly seats will be decided – into e wide-open contest, and put the position of Mr Alain Juppé, the Gaullist prime minister, into immediate question.

The left – composed of the Socialists, Communists and smaller left-wing parties – was credited with e total of 44 per cent, according to the Sofres polling organisation, compared to 36.8 per cent for the Gaullist RPR and centre-right UDF coalition, plus the independent right. An eetimate by BVA polling gave the left 40.7 per cent over 37.2 per cent for the right.

Polls during the campaign showed the left et best level with the right in votes, but still behind in projected seats.

"It is e blow and a warning," said Mr Jacqnes Toubon, justice minister and oumber two in tha government, edding: "We need to rediscover our electorate" in time for the second round.

Mr Laurent Febius, a former Socialist prime minister, said the result was "a disavowal of government policy", while Mr Jean-Pierre Chevènement of the Citizens' Movement, whicb is allied to the Socialists, said President Chirac had "lost his bet".

Mr Chirac had called the early election in a bid to give the government a free hand for the next five years to steer France into European monetary union.

Mr Bruno Mégret of the far-right National Front (NF) also said it was e slap in the president's face. The NF was a major beneficiary of the protest vote, polling around an estimated 15 per cent. Ecological and fringe parties oo right and left also benefited, scoring between 2-3 per cent each.

However, the ability of the NF to play kingmaker on June 1 may have been reduced by the low turnout of less than 70 per cent, which may hamper its candidates making it into the second round.

Among the big battalions, the RPR-UDF fared worse, scoring only 31.5 per cent according to both Sofres and BVA polls.

Despite the wide dispersal of votes, the Socialists beld up well witb around 26.5-27 per cent of the vote, according to these two exit polls, while their Communist allies pulled in 9.5 per cent of the vote.

To win on the first round a candidate needed to get 50 per cent or more of the vote. So with a record number of candidates splitting the vote, yesterday's poll will bave settled very few seats.

But projectiog last night's result into possible seat gains on June 1, Sofres gave tbe Socialists and their Greeo and smaller allies between 242-272 seats, with tbe Communists gaining 21-30 seats.

Set against this was an estimate of 255-287 seats for the RPR-UDF, with the NF perbaps getting up to three seats.

Last night's polls only apply to the 555 seats in mainland France. Tbe rigbt usually bolds most of France's 22 overseas constitueocies.

The campaign has been one of the shortest in recent Freoch bistory, after President Chirac dissolved the National Assembly on April 21, 11 months earlier than legally required.

Uneasy rider: Alain Juppé's position as prime minister has been called into qnestion after voters rebuffed the ruling coalition Reuter

Brewery chairman to head SA police force

By Mark Ashurst in Cape Town

The South African government has appointed ona of the country's most prominent and outspoken industrialists to revitalise the heleaguered police force in its battle against a national crime epidemic.

Mr Meyer Kahn, chairman of South African Breweries, the country's biggest industrial group, will take up his new job as chief executive of the South African police service on August 1. He is the first civilian to hold the post.

The appointmant was announced on Saturday by Mr Thabo Mbeki, deputy president, who said it would "direct and accelerate the conversion of the police service into an effective law enforcemeot and crime prevention agency".

South Africa's level of organised crime is believed to be the third-highest in the world after Colombia and Russia.

Mr Kahn, 57, was a prominent figure in last year's public brawl between big business and government ovar tbe future direction of economic

Continued on Page 16

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Russians strike Gazprom deal

By Chrystia Freeland and John Thornhill in Moscow

The Russian government will today sign an agreement with Gazprom, the country's largest company, to bolster its campaign to keep a rein on natural monopolies.

The egreement witb the giant gas company and its chairman, Mr Rem Vyakhirev, means that Russia's most powarful corporate hoss must observe tough performance criterie. Most significantly, Mr Vyakhirev's salary will be calculated as a percentage of the dividends tha company paye to the government.

The deal is an important victory for Mr Boris Nemtsov, the reformist first deputy prime minister, wbo bas led the state's ettack against the previously sacrosanct monopolists.

In an interviaw with the Financial Times at the weekend, Mr Nemtsov said tha deal would cut the power of Gazprom managers, who have operated the company as a secretive fiefdom.

The agreement replaces a 1993 deal which, according to Mr Nemtsov, had offered Gazprom managers options to buy e controlling stake in the enormously valuable company at a fraction of its market price. Mr Nemtsov said the new pact was a sign the government was winning in its effort to create an open, competitive market economy.

"We were able to change the trust agreement, which is very important," Mr Nemtsov said.

He said even Mr Victor Chernomyrdin, the prime minister and a former Gazprom chief, supported state efforts to bring Russia's largest company back under control.

"Even on such a delicate problem as Gazprom, there is no oppoeition, because Mr Chernomyrdin feels himself to be the head of the government and not the former head of Gazprom," he added.

Mr Vyakhirev will be appointed manager of the state's 40 per cent stake in the company, hut with conditions, including the link between his salary and dividends. Although Gazprom is Russia's biggest company, over the past two years it has paid the Russian Treasury just Rbs20hn ($3.5m) in dividends.

Mr Vyakhirav must also ensure open access for nther companies to Gazprom's gas pipeline and provide Mr Nemtsov – who as energy minister heads a government board that oversees the company – with complete financial reports every quarter.

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Brussels may curb state aid to industry

By Emma Tucker in Brussels

The amount of state aid that European governments give to industry would be cut sharply if tough proposals drawn up by the European Commission come into force.

As part of a proposed crackdown on a recent rise in state aid levels, Mr Karel Van Miert, the competition commissioner, is targeting government subsidies to industry in the European Union's needy regions. He also wants to depoliticise the process by which the Commission vets state aid, making it harder for governments to influence the outcome of decisions.

At present governments are able to subsidise up to 75 per cent of investments in the EU's most under-privileged regions. In less poor but still needy regions, the figure is 30 per cent. Under proposals to be put to industry ministers over the coming months, the ceilings would be cut to 50 per cent and 20 per cent respectively.

"The levels of aid that are allowed to be given are too high," says Mr Van Miert. "The closer you look at today's situation the more you come to the conclusion that state aid is really distorting competition."

Van Miert: 'state aid distorting competition'

There is a suspicion that the regime is doing more to help companies which shop around for government subsidies, than to overcome real regional problems.

Officials are also drawing up proposals for a "multi-sectoral" framework under which all state aid over Ecu50m ($57m) would be examined by the Commission, a move that would give Brussels more control over the biggest, most distorting cases of state aid.

In an effort to make its role as overseer of fair competition more objective, the Commission wants to set time limits for the handling of state aid cases, and to open up the vetting procedure to third parties, such as competitors.

"So long as the state aid procedure is just something between the Commission and the member states, the Commission does not have the clout to stand up to governments," says Mr Christian Ahlborn, a lawyer at Linklaters & Paines, a British law firm.

Mr Van Miert's plans come in response to criticism that excessive state aid to industry, particularly in the richest member states, is distorting competition in the single market.

The proposals are likely to face opposition from governments that do no want their hands tied when it comes to assisting national champions. Mr Van Miert is expecting strongest resistance from Germany.

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French warm to fine weather rather than deciding between left and right

Choices fail to rouse voters

By David Buchan in Paris

FRENCH ELECTIONS

Invited to choose between "the shared élan" promised by the ruling centre-right and the option of "changing the future" offered by the left, the enthusiasm of many of France's 39m registered voters seemed to flag yesterday. Early voter turnout in yesterday's first round of France's parliamentary election ran slightly above the level at exactly the same point in the previous 1993 poll, in which a total of 31 per cent of eligible voters stayed at home. But the turnout fell back slightly later, as the temptation of fine weather across much of France began to take its toll on the electorate.

Firm turnout figures were available from French Polynesia, where 64.6 per cent of Pacific islanders had turned out to vote in the first round held on May 17, a bit less than in 1993. Abstentions ran much higher in New Caledonia, where polls closed at breakfast Paris time. But this was because of a boycott by the local independence movement.

To win on the first round a candidate must get 50 per cent or more of the votes, and barely anyone managed to do that yesterday in view of the record number of candidates – 6,351 or an average of 10.8 per constituency.

Turnout in the first round may determine the shape of contests in the second round next Sunday because, in the absence of anyone gaining an absolute majority, the top two candidates go into the run-off, plus any candidate winning 12.5 per cent of the registered vote. Where the abstention rate was high, therefore, a third-ranking candidate needed to get substantially more than 12.5 per cent of votes actually cast to qualify for the run-off. This is particularly relevant to the hopes of National Front candidates to be still in the game on June 1.

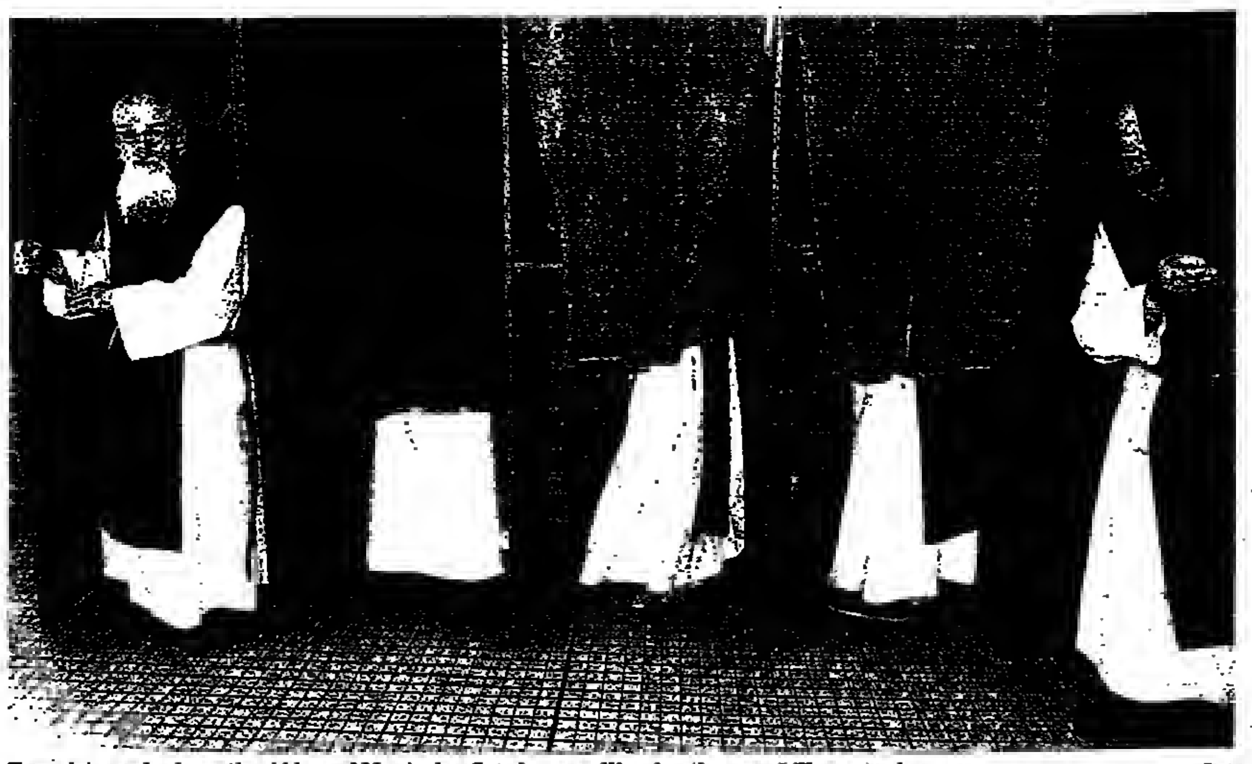
France has seen its highest abstention rates in parliamentary elections, called either just after a referendum as in 1962, or just after presidential contests as in 1981 and 1988, because people do not like turning out twice in a short time. But the abstention rate has also risen in the normally timed elections to 31 per cent in 1993, not far off the record 34 per cent in 1988.

If abstention is a form of protest, then leaving the voting paper blank is an even stronger expression of discontent with politicians by those who take the trouble to turn up at polling stations. Four years ago 3.7 per cent of people voted blank, and many were clearly doing so yesterday.

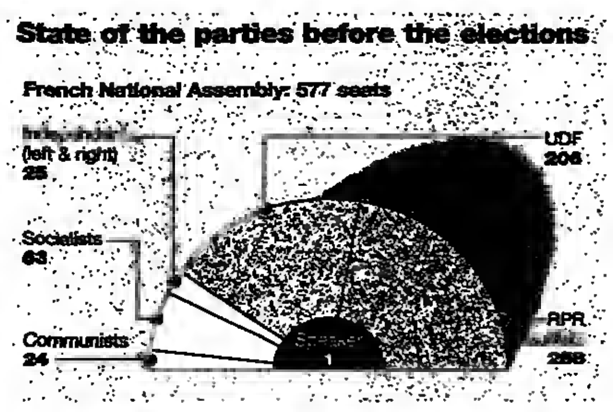
This year's plethora of no-hoper candidates has provided another avenue of protest in the first round for voters who may, or may not, return to mainstream candidates on June 1. As he voted yesterday in his political base of Corrèze, President Chirac exclaimed: "Are there as many as that?", when he saw the bulletins of six candidates for his old constituency.

At least, the president did not have his identity checked, as happened to Prime Minister Alain Juppé, when he went to vote in Bordeaux, of which he has been mayor for the past two years.

"Normally, it is enough to be well known," said the unabashed premier before a battery of photographers. "No, everyone must show an identity card," retorted the poll scrutineer. So Mr Juppé had to fumble in his wallet for the vital card.



Trappist monks from the Abbey of Monts des Cats leave polling booths near Lille yesterday Reuter



Paris ponders mystery of missing coins

By Andrew Jack in Paris

Maybe the French are less enthusiastic about Europe's planned single currency, the euro, than their politicians would like everyone to believe, and are trying to fight a rearguard action.

Baffled officials at the Monnaie de Paris, the body responsible for minting the country's coins, have been forced to launch an inquiry into why large quantities of coins are disappearing each year from circulation.

Economic growth – the usual factor pushing the mint towards greater production – has been sluggish in France over the past two years. But the demand for new coins has jumped sharply, especially for the yellow, low-denomination five, 10 and 20 centime pieces.

These three coins make up two-thirds of the more than 8bn coins in circulation, and the mint has been forced to increase its annual production target from 400m this year to 600m next year to cope with the additional requests.

The result is to put pressure on staff at a time when they are already trying to build up stockpiles of francs so they can begin diverting their minting machines to the fabrication of euro coins from spring 1998.

It is likely to be several months before the inquiry produces any proof to back up possible explanations, which have been as diverse as growing numbers of tourists leaving the country with change still in their pockets, or Frenchwomen drilling holes in the coins to turn them into jewellery.

Perhaps the French are building up their own reserves of francs and centimes in an effort to continue defiantly using the national currency after the euro is formally introduced.

Or maybe they hope to make a profit by stockpiling the coins, since some speculate that the sale price of the five centime coin to the mint's client – the French treasury – (a closely guarded secret) is greater than its face value.

Are tourists taking them? Are women turning them into jewellery?

There again, as the cost of living rises, individuals may simply not consider it worthwhile to lug pocketfuls of the coins around with them and abandon their centimes in forgotten piles at home.

At least Mr Alain Juppé, the prime minister, who is fighting his re-election campaign competing against a gloomy backdrop of high unemployment, can draw a little satisfaction from the mystery.

To cope with the extra production for the missing coins, the Monnaie is hiring several extra staff in its mint, fortuitously situated in Pessac, near Bordeaux, the city in which Mr Juppé is both mayor and a parliamentary candidate for the National Assembly.

Noordwijk clears the path to summit agreement

Lionel Barber spells out importance of Friday's EU meeting at a Dutch resort

Europe's leaders are on course to meet next month's deadline for agreeing a new treaty to make the European Union fit for enlargement eastwards.

Thanks to Friday's mini-summit in the Dutch coastal resort of Noordwijk, the outlines of a political agreement in Amsterdam in three weeks' time are becoming clear.

The importance of Noordwijk was two-fold: it offered a chance for EU leaders to size up Mr Tony Blair, the new British prime minister; and it allowed everyone an opportunity to state their bottom lines in the intergovernmental conference (IGC) on revising the Maastricht treaty.

On the first count, the summit was a success. Mr Blair made a lively debut in Europe. His breezy style was refreshing. He struck something of a chord when he called for the EU to be less elitist and more relevant to ordinary citizens, although all leaders talk these days about building a "people's Europe".

On the second count, the Dutch presidency handling the IGC negotiations claimed to have made solid progress. "The atmosphere was excellent," said Mr Wim Kok, Dutch prime minister. "The message was that everyone wants Amsterdam to be a success."

'The message was that everyone wants Amsterdam to be a success'

Mr Kok will be touring the 14 other EU capitals in the run-up to the June 16-17 summit in order to nail down the deal. Several key points are emerging in the final phase of the negotiations.

First, any increase in EU-wide areas of responsibility will be limited. This applies to the question of whether the European Commission will extend its sole trade negotiating authority to intellectual property and services; but also to the plan to create a zone of "freedom, security, and justice" through more co-operation in immigration, asylum, and visa policies.

The Dutch presidency's plan to incorporate the 1985 Schengen agreement providing for the lifting of border controls into the main EU treaties is running into obstacles.

This is not just with the British and Irish, who are insisting on watertight guarantees on maintaining control of their national frontiers, but also with the Danish and, to an extent, the French.

The likely compromise is a continuation in most areas of the present practice of intergovernmental co-operation, tempered by a role for the European Commission and the Court of Justice to improve efficiency and accountability. There could be a switchover to EU-wide powers in, say, five years.

Second, the size of the European Commission will not be reduced because smaller countries are not willing to renounce their right to have their own individual commissioner.

Chancellor Kohl floated a compromise: a ceiling of up to 20 commissioners, coupled with a review clause once the EU expands to 20 countries, and stronger powers for the Commission president to vet nominees.

Third, bigger countries will receive compensation for giving up one of their two commissioners in the form of more voting power in the decision-making Council of Ministers.

This is essential for political legitimacy since Britain, France, Germany, Italy and Spain have nearly 80 per cent of the EU's total population, but only 55 per cent of the votes.

France, with support from Germany, unveiled proposals for reform which were a good deal more generous than the Dutch presidency's earlier plan.

Most big countries would see their voting weights increase from 10 to 25, while the small countries would go up less sharply. Thus Portugal would move up from five to nine, while Denmark would go from three to five.

Mr Blair complained about the time spent on arcane institutional arguments, but they touch on the balance of power between small and large countries, and on national sovereignty.

Small countries view the European Commission as a guarantor of their voice in a Union which is set to expand to more than 20 members in the next five to 10 years.

The fourth "bottom line" issue is the Franco-German proposal for a phased merger of the EU and the Western European Union. The Germans insisted on the idea to show that Europe is still interested in a political union to balance the planned monetary union, and the French went along.

But Britain and the four "neutrals" will block anything which smacks of turning the EU into a collective security organisation, although they are willing to allow the incorporation of peacekeeping tasks into the new treaty.

Finally, President Jacques Santer of the European Commission has his own, small wish-list. To date, Mr Santer has been virtually invisible in the IGC, preferring to let smaller countries such as the Benelux push proposals; but on Friday night, Mr Santer let out a heartfelt demand for a more "Social Europe" to strengthen the proposed Employment Chapter in the new treaty.

Mr Santer wants more action to protect workers' rights. He was furious about Renault's closure of its car plant in Vilvoorde, near Brussels. His aides were also irritated by aggressive British briefings suggesting that Mr Blair had lectured the president on the need for a more competitive Europe.

If Mr Santer decides to fight his corner, he can count on support from France, the Benelux, and Scandinavia, but not necessarily Germany and certainly not Britain, where Mr Blair has his eye on his business constituency. There could be a lively fortnight ahead.

Romania 'vote of confidence' on reform plan

By Anatol Lieven

The Romanian government has called a parliamentary vote for this week to reaffirm political support for its painful programme of economic reform.

If it wins the vote – as expected – it can begin immediate implementation by decree of a whole range of measures without waiting for them to be passed into law.

The government spokesman, Mr Eugen Serbanescu, said it amounted to a vote of confidence in the six-month-old reformist government. The opposition PDSR, loser in last November's election, had said earlier it would seek such a vote.

The need to accelerate the legislative process is dictated by the number of new laws the government wishes to pass. These total around 80, ranging from bank regulation and privatisation to the rules governing foreign investment. Normal parliamentary procedures would take years.

According to official figures – which ignore the large black economy – the average living standards of ordinary Romanians have dropped by some 30 per cent over the past year, with the new price liberalisation having an especially severe effect. The opposition and opposition-linked trades unions have accused the government of betraying promises to its voters and have called a month of labour protests.

Mr Serbanescu laid special stress at the weekend on the government's commitment to its accords with the IMF and World Bank, from whom it has received pledges of more than $1bn in loans over the past two months. He said: "This is the first time in post-Communist Romania that a cabinet has asked for what may be called a vote of confidence."

The vote this week should also strengthen the government in pushing through its list of state factories and farms scheduled for privatisation or liquidation. This has been beset by the threat of unemployment and social protest as well as by government splits.

Klaus replaces two senior ministers with more changes expected this week

Czech premier starts cabinet reshuffle

By Vincent Boland in Prague

Mr Václav Klaus, the Czech prime minister, has taken the first steps towards restoring his government's battered credibility by replacing two senior ministers. Further cabinet changes are expected early this week.

One year after a general election that cost him his parliamentary majority and put the brakes on the country's reform drive, Mr Klaus bowed to the weight of public opinion and removed Mr Ivan Kočárník, the unpopular finance minister, and Mr Jan Ruml, interior minister.

The start of the reshuffle coincided with a call by President Václav Havel for the government to undertake a complete rethink of its policies to get the country back on the path of economic and democratic reform. Mr Havel, who must approve new ministers, said yesterday he would not support "cosmetic" changes of personnel unless they were accompanied by a reaffirmation of government policies.

Many of the current government's problems are the result of a perceived policy vacuum, which has left the public disillusioned and made investors nervous.

The new finance minister is Mr Jiří Weigl, an economist who has been the prime minister's chief adviser over the past few years. Mr Petr Nečas, chairman of parliament's defence committee, is to become interior minister.

A third cabinet member, industry minister, Mr Vladimír Dlouhý, also announced his resignation, but his successor has not yet been named. The three parties in the centre-right coalition were continuing to meet separately last night to agree a complete list of changes.

The popularity of Mr Klaus and his government has fallen dramatically this year because of an economic slowdown and political squabbling. Big cuts in spending and wage curbs in the public sector have been imposed to try to balance the budget.

Mr Miloš Zeman, leader of the opposition Social Democrats, said at the weekend that the country should bring forward the next general election to autumn 1998 from spring 2000. Though aimed mainly at the prime minister's domestic critics, the reshuffle is also being watched by investors.

A perception of instability has combined with the economic problems and a high current account deficit to expose the koruna to speculation on foreign exchange markets. The central bank was forced to raise interest rates and to intervene several times in the past 10 days to keep the koruna within its trading range against a hard currency basket.

Editorial Comment, Page 15

Presidential vote row hits Slovak poll

By Vincent Boland

Slovakia failed a test of its democratic maturity at the weekend when referendums on Nato membership and direct presidential elections collapsed amid accusations of rigged ballot papers and a revolt by voters against Mr Vladimír Mečiar, the prime minister.

Many people refused to vote because ballot papers contained only three questions relating to Nato. A fourth question, on how to elect a successor to President Michal Kováč when his term expires next March, was omitted.

The ballot papers had been changed after the country's highest court gave an ambiguous ruling on the validity of that question. Mr Mečiar, who opposes a direct election and is a bitter enemy of Mr Kováč, used this legal loophole to have it deleted.

There were chaotic scenes at polling stations on Friday and Saturday as voters demanded four-question ballot papers and walked out in protest when told they were not available.

Mr Kováč, who supported both referendums, refused to cast his own vote, declaring: "This is not the referendum I ordered."

The entire exercise was expected to be declared invalid last night because fewer than 10 per cent of people voted instead of the 50 per cent required.

Opinion polls had shown strong support for a direct election, which could have eased the country's paralysing internal political divisions.

Diplomats said the breakdown of the democratic process would further isolate Mr Mečiar from the west, which saw the presidential referendum as a test of his willingness to accommodate his opponents.

An indication of western reaction will come on Thursday, when Mr Hans van den Broek, the EU external affairs commissioner, visits Bratislava.

The presidential vote was meant to avoid a constitutional vacuum next March. Parliament currently elects a president but neither side now has the required 60 per cent majority to do so. If no successor can be agreed presidential powers pass to Mr Mečiar.

The Nato questions were regarded as irrelevant because Slovakia is likely to be left out of the first wave of the alliance's expansion.

Iran power balance will test Khatami

With the sparkling eyes and easy self-assurance of a master politician, Iran's soon-to-depart President Hashemi Rafsanjani gazed down on the assembled press corps like a benevolent uncle confronted by impertinent children.

That audience, which included several obstreperous foreigners, was clearly going to do its best to catch him out, the more so since the candidate he had publicly supported to take over from him had been soundly thrashed in the presidential election on Friday.

What, he was asked, "will your position be in the decision-making process when the preeldent-elect, Mr Mohammad Khatami, takes over?" The president replied with the elliptical grace for which he is famous: "I will assist the cabinet of Mr Khatami. The Council of Expediency, which Mr Rafsanjani will be heading "should act as adviser to the leadership in reference to the general policies of the country".

If ever there was a veiled warning to the new president that he would have to put up with the continuing presence of Mr Rafsanjani, this was it.

Officially Iran's president has the number two slot to the spiritual leader, Ayatollah Khamenei, in the constitutional hierarchy of power. In a country where there is no prime minister, the president is the head of the government, subject to a maze of checks and balances which be can manage if he is as skilful as Mr Rafsanjani, but which will reduce him to impotence if he is not shrewd enough.

It is well known that whan he steps down in August, President Rafsanjani will be the head of an enlarged Council of Expediency, a body set up by Iran's revolutionary guide and mentor, Ayatollah Ruhollah Khomeini, in the early 1980s to mediate when there was disagreement between the *majlis*, or parliament, and the keeper of Iran's constitutional virtues, the Council of *Guardians*.

These two councils are key levers of power in a system which has some observers baffled by its oriental opacity, but which are well understood by Mr Khatami.

Hashemi Rafsanjani: gave a veiled warning to Iran's new president that he would have to put up with the outgoing president's continuing presence Reuter

He has a reputation as a "man of principle" who resigned his ministerial post in 1992 in protest at the lack of freedom for Iranian writers. He was widely seen by voters as a man who would try to lift some of the more pervasive controls on personal social behaviour and censorship which are features of Iran's clerical regime.

Yet Mr Khatami'e Islamic credentials are impeccable. Born in the southern province of Yazd, he graduated from the religious science centre in Qom, Iran'a spiritual centre, in 1961. He was actively involved in resistance to the Shah and was closely connected with the son of Iran's revolutionary leader, Ayatollah Khomeini.

Unusual for Iran's political leaders, Mr Khatami is a gifted linguist, speaking English and German as well as Arabic. Part of his talent for languages comes from his years in Germany, where he chaired the Islamic Centre in Hamburg in the late 1970s.

The big test for him will be whether he can build a constructive relationship with the other centres of power and in particular with Ayatollah Khamenei and Mr Rafsanjani or he subsumed into their orbit. In the latter case he will be blamed by an over-expectant electorate for all the economic and social ills which even the heavily controlled daily prass acknowledge he is inheriting from his predecessor.

"The new president," said one seasoned Iranian observer, "will have to demonstrate he knows how to ewitch on the magnate of power. If ha can demonstrate he not only has authority but understands how to use it, he will draw power into his own orbit. At the beginning, this will mean he will have to be very easy-going and soft with these various centres of power in order to win their trust."

Mr Khatami will also have to win over the *majlis*, with its conservative ontlook of wealthy *bazaari* traders and clerics, and of which Mr Khatami's main rival, Mr Ali Akbar Nateq Nouri, remains the Speaker.

However, if Mr Khatami can show he knows how to exercise authority, "the loyalty of members of the *majlis* will switch to where the power lies," said an Iranian businessman.

According to the daily Tehran Times, Mr Khatami's "major challenges will be economic ones including the curbing of inflation and controlling spiralling prices".

That these problems are now openly acknowledged is not only a reflection on eight years of President Rafsanjani, it is also a way of telling Mr Khatami whet an enthusiastic electorate now expects him to deliver. But the hidden crevices on Iran's political glacier are for him alone to discover.

Robin Allen

Taliban success rouses fears in central Asia

By Farhan Bokhari in Islamabad and agencies

Afghanistan'e rigid Islamic regime and the former Soviet central Asian states backed by Russia last night faced an uncomfortable stand-off following the defeat of a leading Afghan opposition warlord.

General Abdul Rashid Dostum, head of the once-powerful northern alliance, considered to be the last bulwark against the Taliban islamic regime, fled to neighbouring Uzbekistan at the weekend en route to Turkey, after the area under his control was seized by advancing troops.

General Dostum's fall was triggered by the defection of one of his top aides, General Abdul Malik, who joined advancing Taliban units. With Gen Dostum's defeat, almost 95 per cent of Afghan territory has fallen under Taliban control.

There were immediate signs of anxiety in Moscow and the central Asian states, which consider the Taliban advance to be a security threat. Mr Yevgeny Primakov, the Russian foreign minister, warned the Taliban yesterday not to violate the borders of the central Asian states. Interfax news agency quoted him as saying in Moscow that any border infringement "will provoke very tough and effective actions".

Remnants of the former Soviet troops who once occupied Afghanistan for almost a decade still remain deployed on the Afghan border. Russia is estimated to have some 20,000 troops stationed in Tajikistan, charged with the duty of guarding the border with Afghanistan.

In Dushanbe, capital of neighbouring Tajikistan, President Imomali Rakhmanov yesterday held further discussions with top advisers to review security arrangements. Tajikistan fears that the presence of the Taliban close to its border may reignite domestic insurgency. Last year, Mr Rakhmanov's secular government and Tajikistan's Islamic opposition finally agreed on a ceasefire after a four-year civil war which left thousands dead and displaced hundreds of families.

Both Russia and the central Asian states are particularly perturbed over the Taliban'e puritan brand of Islam, and believe the Islamic group is incapable of giving representation to Afghanistan's smaller ethnic minorities. Since the Taliban last year captured Kabul, the Afghan capital, women in many occupations have been ordered to stay at home and wear veils in public.

The Taliban advance has also split other countries in the surrounding region. Iran suspects the Taliban have been armed and trained by Pakistan to strengthen Islamabad's influence in the war-torn country. Pakistan has denied the charge.

Pakistan yesterday became the first country formally to recognise the Taliban regime. Western diplomats said the move would add strains in its relations with Tehran.

Asian central banks may bolster links

By Peter Montagnon and John Ridding in Hong Kong

Asian central banks may develop more formal links following this month'e joint effort to prop up the Thai baht, according to Mr Joseph Yam, head of the Hong Kong Monetary Authority.

"What happened in the past couple of weeks may well push us more quickly in that direction," he said in an interview, "though whether or not we actually need to create a new institution is something we have to discuss."

He declined to comment on the extent of the intervention, though he said it was unprecedented and hoped it had given the markets pause for thought.

Ten days ago several Asian central banks intervened in local markets to buy baht on behalf of the Bank of Thailand after it came under attack in the wake of the country's economic slowdown.

Some central bankers, including Mr Bernie Fraser, former governor of the Reserve Bank of Australia, have argued that Pacific central banks need to create their own umbrelle institution, like the Basle-based Bank for International Settlements, which could help stabilise markets, harmonise banking supervision and improve payments systems in the Asian time zone.

Mr Yam said this might not be necessary. "Nowadays with advanced telecommunications and information technology yon can have a 'virtual institution' rather than a physical one located somewhere," he said. "But the philosophy is clear. You need closer co-operation and co-ordination."

The HKMA has signed up repurchase accords with 10 other Asian central banks as part of a collective effort to bolster their currencies after the 1995 Mexican crisis and the banks involved now hold regular discussions.

"That matrix of bilateral agreements is filling up fairly quickly. We have also been exploring the possibility of multileteralising them." Mr Yam said. They could then be activated quickly, without separate calls to each of the central banks involved.

Separately, Mr Yam expressed concern about the vast oversubscription to mainland companies' Hong Kong share issues. The current issue, by Beijing Enterprises, is estimated to be more than 1,000 times over-subscribed, clogging the banking system and pushing up money market rates, with about HK$200bn (US$26bn) in subscriptions.

Hong Kong's handover to China on July 1 was likely to increase the HKMA's role in providing expertise to the Peopls's Bank of China, he edded. It recently held its first seminar on banking supervision for about 25 provincial directors of the Chinese central bank. Mainland officials are seconded to Hong Kong for experience.

The HKMA was also helping China set up a system for real time gross settlement of banking payments.

Yen traders expect a nervous summer

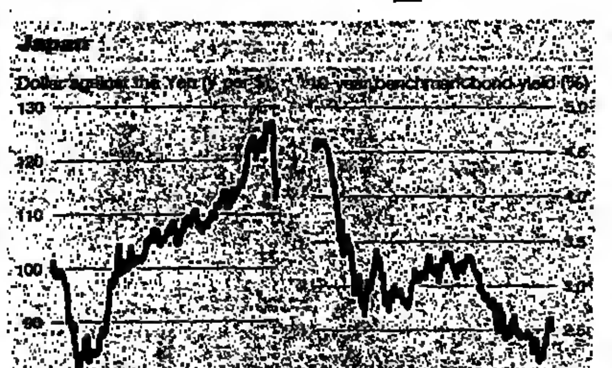
As currency traders return to their desks this week, some may feel that the yen world is turning on its head.

Less than a month ago, a slide in the yen was triggering speculation about how much further the Japanese currency could fall, amid fears that rising exports on the back of a weak yen would spark US-Japan trade friction.

But after a week of currency turbulence, traders are now mulling the opposite: whether the yen is set to surge sharply against the dollar instead.

For in recent weeks, the currency has seen arguably the most dramatic short-term rises for over a decade. After falling against the dollar to a low of almost Y127 earlier this month – a 50 per cent drop in two years – the yen surged back to touch the level of Y112 last week, before closing on Friday just below Y116.

The scale of this move has partly reflected market panic. During the last two years, many traders have practised so-called "carry trades" – borrowing yen at low interest rates and using it to buy dollars and other high-yielding currencies.



This strategy depended on Japanese interest rates remaining at their current historically low levels of 0.5 per cent. But in early May speculation erupted that Japanese rates might start to rise this summer, instead of next year as previously assumed.

Most traders still think the possibility of an immediate rise in rates is slim. It seems unlikely the Bank of Japan will act until it has hard evidence about how the economy has reacted to the consumption tax rise in April – data not available until autumn.

As one government official said: "The Bank of Japan is not going to take a potentially risky step like that without good information."

But the possibility of a move has left traders scrambling to dump dollars. This pattern has fed on itself: whenever the US currency rallied briefly in the last three weeks, investors have been keen to sell it before they incurred further losses.

Japanese investors, in particular, appear to have been caught short.

As Mr Pelham Smithers of ING Barings in Tokyo said: "The bedging strategies of Japanese exporters are not as aggressive as they used to be.

"Most thought the dollar would keep rising."

But the key question now is whether the dollar'e small rebound at the end of last week suggests that this panic selling is over – meaning thet the US currency'e slide is at an end. The Japanese government certainly appears to be hoping so.

The yen's fall below Y125 earlier this month left many officials fearing new US trade complaints. And in the aftermath of the meeting of the Group of Seven main industrial nations at the end of April, efforts have been under way verbally to boost the currency.

But soma officials are now uneasy that if the yen surges too far in the opposite direction it could hurt Japan's exporters and damp the economic recovery. The finance ministry, for example, is officially stating that the "period of yen weakness" is now over.

Mr Eisuke Sakakibara, the finance ministry official who oversees foreign exchange policy, said: "What has happened in the last few weeks is that the irrational pessimism which pervaded the markets before has faded – traders have realised thet the Japanese economy is not about to collapse. After the G7 meeting it took time for the markets to absorb the delicate little statements."

But whether this new stance will work is unclear. Mr Jim O'Neill, chief currency strategist at Goldman Sachs in London, for example, thinks the yen could soon be heading up again, as the widening trade surplus starts to irritate the US.

Although Japan'e current account surplus as a proportion of gross domestic product fell to 1.4 per cent in fiscal 1996, from 3.1 per cent in 1993, it has been rising sharply in recent months. "The real thing to follow with respect to the yen, as it always is on e longer term basis, is developments in Japan's current account balance," Mr O'Neill argues.

Other traders disagree: many economists in Tokyo now expect the currency to remain in the Y115-Y120 range for a while, since Japanese savers still appear intent on placing part of their money overseas, and the US growth outlook remains far stronger than the Japanese picture.

But the acid test may come if new signals appear about the direction of US interest rates – and when hard data finally emerge on what has happened to Japan's economy after the tax increases. This should start to trickle out in the coming weeks.

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Gillian Tett

INTERNATIONAL NEWS DIGEST

Dow Jones libel sum rejected

A US district court judge in Texas has thrown out the bulk of a record $222.7m libel award against Dow Jones, the media and financial information group. US District Court Judge Ewing Werlein threw out $200m in punitive damages that had been awarded in a libel suit against the company's Wall Street Journal in connection with a story ebout a now-defunct Houston securities firm.

A Dow Jones spokesman said the judge had eliminated $200m in punitive damages against the company but kept the remainder, which included compensatory damages against Dow Jones and $20,000 in punitive damages against a reporter. The company planned to ask the judge for either a new trial or to cut the remaining damage award. If necessary, the company would appeal, he said.

The libel award, the biggest ever in a US libel case, stemmed from a 1993 Wall Street Journal article about MMAR Group. *Reuter, New York*

HK-Taiwan shipping accord

Hong Kong and Taiwan have reached an agreement which will allow shipping links to continue after the British colony returns to Chinese rule on July 1, according to officials from the two sides.

In talks in Taipei at the weekend, Hong Kong accepted a Taiwanese proposal that vessels from both sides carry no flags on their main masts after the Hong Kong handover so as to avoid the sensitive question of sovereignty.

The deal was greeted with relief by shipping companies and appears to resolve one of the main trading issues still outstanding ahead of Hong Kong's handover. Rapidly rising trade between Taiwan and China now exceeds US$20bn annually. Because there are no direct trading links across the Taiwan strait, it passes largely through Hong Kong. Although the deal marked a breakthrough after several rounds of failed talks, Mr George Chao, chairman of the Hong Kong Shipowners' Association and head of the territory's negotieting body, described the deal as temporary.

He said that more detailed negotiations on the matter would follow. Under the terms of tha accord, Hong Kong ships will carry on their stern the territory's post-handover flag. *John Ridding, Hong Kong*

GM and UAW agree deal

General Motors, the US car manufacturer, and the United Auto Workers union have reached a tentative accord to settle a seven-week strike at the company's Oklahoma City car plant, e company spokesman said yesterday. A GM spokesman said the agreement was reached late on Saturday night.

About 3,500 UAW members began the strike on April 4, when the two sides could not reach agreement on a new local contract. GM said earlier this month the Oklahoma City strike and e second, still unresolved, walkout at its Pontiac East truck plant in Pontiec. Michigan, had cost it $225m in lost profits as of May 15.

The strike choked off supplies of GM's new Chevrolet Malibu, e crucial part of its bid to recapture market share in the mid-size car sector. GM cut Malibu advertising as a result of the walkout. *Reuter, Detroit*

Indonesian fire kills 130

Arsonists set fire to a shopping mall, killing at least 130 looters who bad charged inside when an election campaign riot erupted at Banjarmasin, 900km northeast of Jakarta on the island of Borneo, Indonesian police said yesterday.

Many badly charred bodies were found clinging to what remained of pillaged clothes, watches and other goods.

Witnesses said the mall closed and staff went home when trouble began. Mobs then broke into the building at the height of the riot several hours later. The mall was soon engulfed in dense black smoke and huge flames.

Some looters escaped, but many stayed inside, apparently afraid they would be arrested by police and troops outside, witnesses said. Rescuers could not start retrieving bodies until yesterday when the heat subsided. *AP, Banjarmasin, Indonesia*

Poles vote on constitution

Poles voted yesterday in a referendum to approve a new draft constitution enshrining the country's post-1989 economic and democratic reforms.

The draft has been bitterly attacked by the nationalist opposition, led by the Solidarity trade union, which says it fails adequately to reflect Poland's Roman Catholic traditions and make a clean break with the communist past.

Solidarity's Warsaw branch has distributed leaflets warning that the new constitution would "condemn Poles to poverty, deprive them of their sovereignty while promoting atheism and liberalism".

The new constitution as drafted has also failed to ban abortion outright, as the Catholic church had demanded. Accordingly bishops have signalled the document should be rejected. *Christopher Bobinski, Warsaw.*

Mexico track changes hands

One of Mexico's most staid institutions has been handed over to a company more used to strobe lighting and the latest hits than to top hats and Sunday best. The 25-year concession to the Hipódromo de las Américas, an exclusive racetrack in Mexico City, has been granted to ECE, a Mexican company which runs franchises for the Hard Rock Cafe and Planet Hollywood.

The company's US partner is Maxxam, responsible for the Sam Houston Race Park in Texas. The interior ministry waived the concession of the previous holders, the aristocratic Fernández family, because of non-payment of taxes. ECE belongs to tha family of Mr Claudio X González, chief executive of Kimberly-Clark de México, one of the most renowned figures in Mexican business. *Daniel Dombey, Mexico City*

Affirmation of one-party state seen as setback to efforts to coax reforms from Castro

Cuba defiant over hardline policies

By Pascal Fletcher in Havana

Cuba's ruling Communist party, turning a deaf ear to international calls for political reform, has published a policy document for national discussion which asserts that one-party socialism is the island'e only effective defence against US hostility.

The eigbt-pege document, prepared for e party congress which is due to be held in October, describes the US as Cuba'e "secular enemy" and eays Washington maintains "the unvarying strategic ohjective" to destroy the Cuhan revolution.

"In Cuba there will be no restoration of capitalism because the revolution will never be defeated. The nation will continue to live and will continue to be socialist," the document said. It was published on Saturday in Granma, tha party newspaper.

"Only the unity of revolutionaries can lead to the unity of the people. This requires a single party," it added.

This declaration of unswerving allegiance to one-party socialism will be a disappointment to those foreign governments which oppose the tigbtened US economic embargo against Cuba hut have at the same time been trying to coax Cuban President Fidel Castro into making democratic reforms.

Canada, which is Cuba's biggest trade and investment partner, is the main advocate of this "constructive engagement" approacb, while tbs European Union has taken a slightly tougher stance hy tying any future sconomic co-operation with the island to the need for political and economic reforms.


Castro: unswerving allegiance

A senior US official said last week Washington would not change its policy towards Cuba unless the island moved towards democracy and improved respect for buman rights.

The Cuban party document, citing what it said were renewed US efforts to tighten economic sanctions and foment internal subversion, rejected the option of multi-party politics as a threat to national unity.

Granma said the policy docnment would be debated before the October 8-10 Fifth Party Congress in party cells and other official mass organisations, such as neighbourhood block committees.

"It will be a new plebiscite by our heroic people in favour of the nation, the revolution and socialism," the newspaper said.

Despite the reference to debate, the document offered no alternative to one-party socialism, which was presented as the only "patriotic" choice.

It presented a lengthy historical justification of Cuba's one-party political system, tracing it back to the island's 19th century independence struggle against Spain led by Cuban nationalist hero José Martí. Mr Castro was hailed as the "founder and guide" of the Cuban Communist party.

The party's ideology was described as derived from the "teachings of...Marx, Engels and Lenin, the doctrine of Martí and the creative ideas and example of Fidel (Castro)," it added.

The policy document made only passing reference to economic reform, acknowledging that today's socialist Cuba needed to assimilate "certain capitalist elements" and "insert itself into the world economy".

Australian carmakers urge decision on tariffs

The clanging din, as the latest car models roll off the production line at Mitsubishi's Thorley plant in Adelaide, is almost deafening. But it is nothing compared with the clamour from Australia's carmakers and component suppliers as they ettempt to influence the country's future vehicle tariff policy.

At issue is what degree of protection Australia should offer its domestic car industry after 2000.

Under an existing "car plan" tariffs have fallen from around 57.5 per cent a decade ago, to 22.5 per cent at present, and are set to reduce further to 15 per cent by 2000.

But this progressive tariff reduction was put in place by a former Labor government. While the car tariff scaleback proceeded st a slower rate than tariff reduction generally, it formed part of a broader effort to wean Australian industry away from trade barriers, and encourage a "free trade" push within the Asia-Pacific region.

The current task confronting the new conservativs federal government, is what to do ebont the post-2000 regime – a matter which will become increasingly urgent as carmakers weigh up the next investment cycle.

Tariffs are not the only issue. There is a separate, and contentious "export facilitation scheme" (EFS) – which allows vehicle exporters to earn tradeable credits to reduce duty on imported vehicles or components, but does not meet World Trade Organisation criteria.

And the government may also need to consider the "dnty-free entitlement", which allows assemblers to carmakers to import vehicles and components duty-free up to 15 per cent of their value of production.

Already, the Productivity Commission, one of the "driest" government agencies on economic matters, has been called in to review the issue, and is due to deliver its final report to the Treasury today. The onus is now on the government to respond.

The one point of consensus is that Australia's automotive manufacturing industry bas cbanged radically over the past decade.

Imports, for example, now account for more than 50 per cent of cars sold in Australia, compared with about 15 per cent in the mid-1980s. The number of car manufacturers has contracted to four – Ford, Holden, Mitsubishi and Toyota – as has the number of models produced.

Labour productivity, meanwhile, bas improved from around 11 vehicles per employee in 1984 to about 16 by 1995.

Australia has also started to build up a vehicle export industry – with overseae sales rsaching A$1.8bn (US$1.39bn) in 1995, compared with under A$800m in 1985.

In a draft report, published just before Christmas, the Productivity Commission recommended more of the same. It suggested thet tariffs be cut by another 2.5 percentage pointa a year between 2001 and 2004, until they reached 5 per cent, in lins with manufacturing industry generally. At this point, the duty-free allowance should be reviewed.

The EFS, meanwhile, was acknowledged to be "valuable", hnt the commission urged that this, too, bs ended in 2000 because it could be subject to WTO challenge.

The commission justified its conclusions on efficiency grounds. The tariff, it calculated, would cost consumers A$13bn bstween 1993 and 2000. In 1995 alone, it estimated an average A$3,700 was added to the price of each vehicle bougbt – though that figure, and modelling behind it, is fiercely contested by the industry.

> The task confronting the new conservative federal government, is what to do about the post-2000 regime – a matter which will become increasingly urgent

"For an industry which needs to adopt an increasing emphasis on exports, a high tariff on imports is a contradiction," the commission'e draft report suggested.

Mr Ian Webber, chairing the commission's car review and an ex-Mitsubishi executive, took a softer line. In a dissenting report, he suggested that further reductions in assistance after 2000 should be deferred until Australia's "microeconomic reform" agenda had progresssd – including tax reform – and the country had "elicited binding commitments to reduced protection of the industry by our trading partners".

From e practical standpoint, that could mean a "pause" on tariff levels until 2005, with another inquiry being held "early in the next century" he suggested.

At ths other end of the spectrum are the carmakers, local component suppliers, and state-based politicians, who fear the sconomic impact of further downsizing in the local manufacturing industry.

Their principal concern is that imports will continue to sweep into the market, while much higher levels of protection in many neighbouring Asian countries will limit export potential.

"If the Productivity Commission'e final report stays as per the draft report and is implemented, we don't think the car industry will be here in the year 2010," said Mr Mike Quinn, head of Mitsubishi Motors Australia.

In addition, if domestic car production winds down, the component industry could also find itself in an unsustainahle position.

And the car industry claims that both export opportunities and inward investment could be lost if tariff reduction continues. Mr Bernie Doyle, general manager at Air International, the largest Australian-owned components supplier, says that his company has been building up sales in Asian markets, but needs a solid domestic base to sustain a sometimes lengthy process.

The betting on the outcome is on some form of compromise.

Mr John Howard, ths prime minister, has said he "emphatically" wants Australia to have a car manufacturing industry, although he has also added that the goverument'a decision will "take into account the interests of all the Australian people".

The one thing the government cannot do, is stall. "Hundreds of millions of dollars are at stake," says Mr John Olsen, state premier in South Australia, one of the two states most affected by the issue.

"Predictability and certainty in policy will he required for those investment decisions to be made."

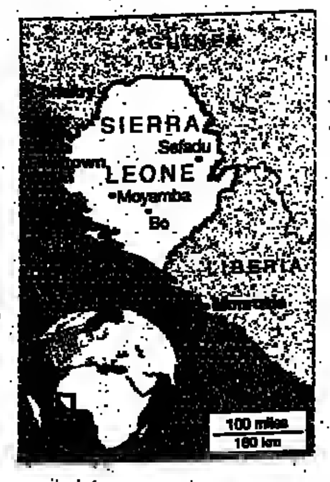
Nikki Tait

Army ousts Sierra Leone government

Coup marks end of President Kabbah's short-lived attempt to create a democracy

By Antony Goldman in Lagos

Junior officers in the Sierra Leonean capital, Freetown, yesterdey announced the overthrow of the civilian administration of President Ahmed Tejan Kabbah, ending the country's short-lived experiment with democracy.



Despite extensive mineral resources and fertile land, mismanagement, corruption and six years of civil war have left Sierra Leone's 4m peopls among the most impoverished on the continent.

After several hours of heavy gunfire yesterday morning, coup lsaders appeared in control of most key installations. "The democracy we have had in this country is not real," a spokesman declared over state radio, referring to multi-party elections 15 months ago designed to end a generation of one-party rule, military government and political instability.

The Commonwealth, to which Sierra Leone belongs, issued a statement in London condemning the attempted coup as "unacceptable".

"This would be a particularly retrograde step for Sisrra Leone after the advances made by that country in the last year in building democracy, peace and reconciliation," said the Commonwealth secretary-general, Mr Emeka Anyaoku.

Western powers had applied intense pressure on the Sierra Leone military to leave office last year. But at least twice since September, conspirators have tried to topple Mr Kabbah, who is reported to have fled Freetown by helicopter.

In recent weeks, his government, which signed a peace agreement with rebels last November, had appeared increasingly powerless in the wake of a sharp escalation of fighting involving factions in various parts of the country.

The coup lsaders bave warned several hundred Nigerian troops stationed in Sierra Leone as part of a mutual defence pact to stay out of "a purely internal matter." However, they also appealed for the return from Nigeria of Mr Foday Sankoh, leader of the rebel Revolutionary United Front.

Officially, Mr Sankoh has been a guest of the Ministry of Foreign Affairs since his arrival in Lagos in March. Last night he said he was "ready to return home immediately." He pledged himself to a negotiated solution to Sierra Leone's problems, but cautioned that be would bave "to wait and see" what lay behind the coup.

Nigeria has made no comment about the latest events in Sierra Leone.

But General Sani Abacha, who seized power in 1993, has repeatedly called for an end to regional conflict. Last week he released proposals for permanent maintenance of the Nigerian-dominated multi-national peace-keeping force at present operating in Liberia, to deal with crises in west Africa.

Airbus may miss target date for crucial reform

By Haig Simonian and Graham Bowley

Airbus, the European civil aircraft consortium, may miss its 1999 deadline to transform itself into a fully commercial company, according to tbe bead of one of its main partners.

Mr Jürgen Schrempp, cbairman of Daimler-Benz, the German member of the four-nation consortium, said: "I don't know if the transformation will be within the 1999 time schedule. But it is going ahead."

Mr Schrempp's comments, in an interview witb the FT at the opening of Mercedes-Benz's new car plant in the US state of Alabama, mark the first recognition by a leading Airbus member that the deadline may slip.

Mr Schrempp, who used to run Daimler-Benz's aerospace subsidiary, said any delay was likely to be caused by continuing reluctance by Aérospatiale, the French Airbus partner, to accept the transformation.

The Airbus partners – Daimler-Benz Aeroepace (Dasa), Aérospatiale, British Aerospace (BAe) and Casa of Spain, agreed earlier this year to turn Airbus into a limited company.

Dasa and BAe have been pressing for the new company to take control of the partners' Airbus factories, but Aérospatials has been resisting.

Mr Schrempp said Aérospatiale's position was based on the fact that its facilities were not dedicated exclnsively to Airbus production, complicating the transfer of assets to a new commercial Airbus company, as sought by Dasa and BAe.

The French position was further confused by the "difficult process" of first merging Aérospatiale witb Dassault, the private sector Frencb military aircraft maker, he said.

However, Mr Schrempp said tbe progress made so far by the technical study groups set up to prepare Airbus for the transformation left him confident the change would take place.

"I have no doubt France will eventually come round," hs said. "It is inevitable. It will come. Everybody knows."

Mr Schrempp said Dasa's recent decision to forge new links with the Lagardère group of France and support the French conglomerate's bid for Thomson, the French state-controled electronics giant, did not threaten the Airbus restructuring.

Mr Yves Michot, chairman of Aérospatiale, earlier this month hit out at Dasa's decision to team up with Lagardère before the winner of the bid for Thomson was known. He warned that forming an alliance witb Lagardère against Aérospatiale was "signing the death warrant of Airbus".

But Mr Schrempp said: "We will stay friends." The disagreement "will have no effect on the Airbus restructuring".

He said: "It is traditional in the aerospace industry that you co-operate on one level and compets on another."

The clossr co-operation with Lagardère – which already has strong links with British Aerospace and GEC – would strengthen Dasa's ties in the UK, Mr Schrempp said.

"We have looked at the advantages. We know how important the Frencb-German axis is but a trilateral axis is better. That was the best option," he said.

Dasa's link with Lagardère involves closer co-operation by the group's defence electronics, space and missiles interests.

Observer, Page 15

> The German government is seeking to allay concerns that the country's budgetary prohlems could pose a threat to the Eurofighter, the joint project of the UK, Italy, Spain and Germany for a new generation of combat aircraft, writes Graham Bowley.
>
> Mr Theo Waigel, finance minister, is in talks with Daimler-Benz Aerospace – a partner in the project – aimed at redirecting some state aid paid to Dasa for development of its part in Airbus, the European civil aircraft project, to pay for Eurofighter production.
>
> Mr Volke Rühe, defence minister, said in an interview in a German newspaper yesterday he was confident Bonn would find the financing for Germany's acquisition of 180 of the aircraft from 2002 onwards.
>
> The project has been dogged by disagreement between the finance and defence ministries over DM2bn ($1.1hn) of interim costs. The defence ministry has said it is prepared to pay its DM1bn share, but the finance ministry has been more cautious in the light of government attempts to meet the budgetary criteria for European economic and monetary union.


Schrempp: confirmed deadline might slip

HK airlines hit by engine problems

By John Ridding in Hong Kong

Hong Kong'e aviation industry has been hit by cancellations and disruption following the decision by the territory'e two carriers to ground their fleets of Airbus A330-300 aircraft hecause of problems with Rolls-Royce engines.

The weekend announcement is a blow to Cathay Pacific and Dragonair, and to Rolls-Royce, manufacturer of the Trent 700 engines which have been involved in a number of incidents over recent months. Several Airbus aircraft operated by the airlines have made emergency landings after developing engine trouble.

Cathay has grounded 11 aircraft, about one-sixth of its flaet, while Dragonair has grounded four.

Garuda of Indonesia, the only other carrier operating the combination of Airbus A330-300s with Trent 700 engines, said it would continue operations with the aircraft.

Cathay Pacific said the aircraft would remain grounded until the problem had been resolved, and that this could be a matter of days or weeks. The airline said the decision to ground such a big part of its fleet was unprecedented and had prompted the cancellation of more than 30 flights at the weekend.

However, e spokesman claimed the carrier was "getting on top of the situation" through rescbeduling and the use of other aircraft for the Airbus routes.

A team of engineere from Rolls-Royce has been examining the problem with tbe engines, which concerns their gearboxes. "A bearing does not appear to be getting enough lubrication and this leads to overbeating and vibrations," said a Cathay official.

Sbe said the prohlem had been "identified and understood" and thet a design solution had been found. Howsver, this would need to he tested before services could resume.

Rolls-Royce played down the impact to its orders, saying it had received no cancellations for Trent 700 engines. At present, the group has orders and options for more than 90 Trent 700 engines. "This is a fairly new engine and our customers understand there can be problems," said a Rolls-Royce spokesman. "There was never any risk for passengers, this is a question of reliability. What is important is that we now resolve the situation."

As e result of the disruption, several tbousand passengers faced delays or cancellations. Cathay said it had not yet considered whether to seek compensation from Rolls-Royce.

The Hong Kong airlines described their move as a precautionary measure. "All decisions to shut down an engine have been voluntary rather than forced," said a Cathay spokesman, referring to the four such incidents since last November. "The Airbus A330-300 is designed to be abls to land with one engine," the official added.

The latest incident occurred last week when a Dragonair Airbus made an emergency landing in the Philippines after developing engine trouble en route to Kota Kinabalu in Malaysia. Cathay Pacific is Hong Kong's de facto flag carrier and is 44 per cent owned by Swire Pacific, the local arm of the UK controlled Swire group.

Other big shareholders include Citic Pacific, the Hong Kong arm of Beijing's flagship investment vehicle. The two groups are also substantial shareholders in Dragonair, along with China National Aviation Corporation, the mainland aviation authority.

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Contenders vie for Hungary fighter deal

By Anatol Lieven in Kecskemet, Hungary

Western fighter aircraft roared and rolled over the Hungarian military airfield of Kecskemet at the weekend in a deafening attempt to persuads Hungary's government to pay up the $1.2bn to buy them. But in a deal which, if it goes ahead, will be decided largely by the economic incentive on offer, less dramatic but more significant moves were being made elsewhere.

Electrolux, the giant Swedish bousebold appliance maker, announced that it would increase by $33m its investment in its Hungarian joint venture, intended to finance the development of its new refrigerator factory at Jaszbereny. Electrolux is part of the Wallenberg group which also owns Saab, and has announced that it believes the whola of the new investment can go to offset Saab's bid for the fighter contract.

The Hungarian government is considering buying 30 fighters to modernise an ageing Soviet-built airforce, and four big western consortia are in the running. The Saab-British Aerospace joint venture signed a memorandum of understanding with the Hungarian government in 1995, and initially seemed to have won the bid for their JAS 39 "Gripen" multi-purpose war aircraft, but the Hungarians suhsequently put the purchase on ice until the question of their membership of Nato was decided in July of this year.

In the meantime, three other western consortia entered the ring: Lockheed Martin, with the F-16/C Falcon, McDonnell Douglas with the F/A-18 Hornet, and Dassault with the Mirage 2000-5. Both the American groups have now signed offset framework agreements with the Hungarian government, and Dassault, although lagging behind seriously in this respect, is expected to do so soon. These agreements outline a general commitment to investment in Hungary.

Saab believe that the presence of several different companies of the Wallenberg group in Hungarian industry gives them a clear advantage, with Electrolux-Lehel already providing some 4 per cent of Hungarian exports.

Lockheed for its part is arguing that although not so strongly represented in Hungary as yet, it can rely on its links to General Electric and other big industrial groups. GE has already invested more than $700m in Hungary, and in February signed an agreement for offset if Lockbeed wins the Hungarian deal.

Russia is offering Hungary a mixture of modern fighters and fighter bombers, partly as offset for debt; but Rosvooruzhenie, the state military export group, was not represented alongside the western competitors at Kecskemet. At around $400m, the Russian bid is less than a third of the western ones, but western and Hungarian military experts have raised doubts both about the high cost of the Russian aircraft to fuel and maintain, and about the reliability of Russian supplies of spare parts.

No one at Kecskemet could have doubted that the politica of the fighter deal leaves little room for the Russians. Hungarian ministers, company representatives and western diplomats and officers all travelled down to Kecskemet together on a special train, the "Nato-Express", provided hy the Manfred Wörner Foundation, a Hungarian lobby group for Nato membership.

The Russians are, however, not the only ones to be worried about Hungary buying Nato aircraft. The Hungarian finance ministry is reportedly unhappy with the cost, and is trying to insist that the defence ministry find the money by making cuts elsewhere.

Nigerian arrests add to air worries

By Antony Goldman

About 50 employees of state-owned Nigerian Airways have been arrested in connection with the theft last month of high-tech computer navigational aids from one of the ailing airline'a aircraft.

The arrests come a week after Nigerian-registered aircraft were banned from British airspace over alleged poor safety standards. The ban prompted Nigeria's military government in retaliation to bar British Airways from lucrative routes to Lagos and the northern city of Kano.

Nigeria's eviation minister, Air Commodore Ita Udo Imeh, has described criticism of Nigeria's air safety record as unjustifiable. Several officials have suggested the British ban is politically motivated. Officials from both sides tried last week to reach a compromise.

Britain is hoping Civil Aviation Anthority inspectors will be allowed to examine the Nigerian Airways DC-10 which was to be used on the London route. They want to assess the airworthiness of the aircraft, recently returned from a $6m refit in the US.

The Department of Transport in London has released details of faults discovered on Nigerian registered cargo aircraft, which nevertheless held certificates of airworthiness issued by the Lagos authorities.

There have been a number of recent incidents which call into question safety and security in the Nigerian aviation sector including a power cut earlier this month which caused runway lights to go off just as a Swissair aircraft was about to land.

Mr Peter Igbinedion of the Federal Airports Authority of Nigeria acknowledged that navigational equipment and emergency facilities were poor at most of the country's airports. But he argued that government spending commitments would help standards rise.

Ex-president of employers' group warns Conservative MPs against choosing rightwing candidate

Party leadership boost for former chancellor

By Liam Halligan, Political Staff

A senior businessman has written to all Conservative MPs, urging them to resist the drift towards Euro-scepticism and vote for Mr Kenneth Clarke, the shadow chancellor, in the coming Conservative leadership election.

Sir Bryan Nicholson, a former president of the Confederation of British Industry, has warned MPs that choosing a rightwing leader would undermine the party's relations with the business community.

As other senior Conservatives sought to influence the leadership contest, Mr Clarke was dismissed as "too old" by Lord Parkinson, the former party chairman, but endorsed by Sir Leon Brittan, vice-president of the European Commission and another ex-cabinet minister. There is also growing speculation that Mr Clarke will soon receive the support of Mr Michael Heseltine, the shadow deputy prime minister. Sir Bryan's letter pointed to the dangers of the Conservative party straying from the centre-ground of politics.

"I am concerned that the party risks making the same sort of wrong analysis and taking the same sort of wrong direction that Labour did after their 1979 defeat," he said, referring to Labour's swing to the left under Mr Michael Foot, one of its former leaders.

Aides to Mr Clarke said the letter is one of several written by industrialists to MPs urging them to vote for the pro-European former chancellor. But Lord Parkinson, describing Mr Clarke as "too old to be leader by the time of the next Tory government", said MPs felt his insistence on not ruling out Britain'e early entry into monetary union damaged the party at the polls.

"There is a feeling be beld the last government to ransom ... he has a cavalier attitude to people whose views don't agree with his – particularly on Europe."

Asked if his reference to Mr Clarke's age was an endorsement of Mr William Hague, the youngest of the six Conservative candidates, Lord Parkinson said: "That is not impossible."

But Sir Leon said there was "not the slightest evidence" tbat Mr Clarke's views on Europe had harmed the Tory party.

"Ken did a tremendous job as chancellor," be said.

The government said yesterday it would not announce the date of the Budget until after it had published the results of an independent audit into public finances, Liam Halligan writes. The move is likely to prompt speculation that Mr Gordon Brown, the chancellor of the Exchequer, will use the report on the previous government's borrowing projections to justify raising taxes.

Last week's launch of a National Audit Office inquiry into the assumptions underlying the Treasury's forecasts of public borrowing hinted that the national accounts are in worse shape than was suggested in the former Conservative government's November Budget.

"There is widespread suspicion that improper assumptions were made about privatisation receipts and revenues from the 'spend-to-save' [clampdown on benefit frand]," said an aide to Mr Brown. "We now want an open and accountable system with no cooking of the books."

In its election manifesto, Labour said it would introdnce a Budget within two months of the May 1 vote – by early July. An announcement that the Budget will fall ontside this period, would lead to speculation that the Treasury needs more time to analyse the ramifications of complicated tax increases.

Lloyd's may delay new rules for Names

By Christopher Adams, Insurance Correspondent

Radical plans by Lloyd's of London to raise minimum capital reqnirements for Names could be revised following angry protests at the speed of reform.

Lloyd's proposed last month that Names – individnals whose assets have traditionally snpported Lloyd's – increase funds held at the insurance market and show greater personal wealth.

Names' nnmbers have declined following several years of hnge losses, and corporate investors have been replacing them. Lloyd's believes reforms are essential to satisfy regulators and ratings agencies.

The Association of Lloyd's Members, representing several thonsand Names, described a proposed two-year period for introducing the new requirements as "wholly nnrealistic".

It argued that too much haste could result in a dameging exodus of capital.

It is thought the insurance market's rnling council could allow more time for some proposed changes, and may drop moves to stop Names using homes to support underwriting.

The association said yesterday it "would bave to welcome" any concessions.

At present, most Names hold funds at the insurance market representing 20-30 per cent of the business they can back, compared with a minimnm of 50 per cent for corporate investors.

Lloyd's proposed that Names within two years show evidence of means totalling at least £350,000.

It pnt forward plans for a risk-based capital system, under wbicb all investors wonld need assets totalling at least 50 per cent of the premiums they supported.

Funds at Lloyd's ratios for Names wonld under the proposals be raised to 32.5 per cent next year and 37.5 per cent in 1999.

Lotus looks to blossom under eastern sun

Proton plans to build popular Elise sports car in Malaysia

Rave reviews: there is an 18-month waiting list and a backlog of about 2,000 orders for the £20,000 Lotus Elise convertible sports car, which will now also be built in Malaysia

Big cbanges could be coming sooner than expected for Lotus as its new Malaysian owners get to grips with one of Britain'e most familiar motoring names.

Proton, Malaysia's "national" carmaker has adopted a fairly hands-off approach to managing Lotus since buying a controlling stake in the sports car and automotive engineering group last October. But matters could change as Proton sets up a second production line in Malaysia to supplement inadequate supplies of Lotus's Elise sports car.

There is an 18-month waiting list for the Elise, a lightweight two-seater which has received rave reviews.

Although production is building up from seven a day to a target of 12 by the end of the year, that is not enough to meet the backlog of about 2,000 orders for the £20,000 convertible.

The Malaysian line could teach Lotus some painful lessons. It takes about 200 bours to build an Elise, eccording to Mr Morris Dowton, Lotus's manufacturing manager, exceptionally slow by motor industry standards.

One reason for this is that Lotus makes virtually all its own parts. While most of the motor industry is "out-sourcing" work to outside suppliers, Lotus's beadquarters at an old US airforce base near Norwich contains a network of mini-plants, each specialising in low volumes of key components.

Such intense specialisation may be one of the first Lotus traditions to go. "We're already looking at differences, and we'll re-export the processes back to Lotus if ours are better," says Tengku Mahaleel Tengku Ariff, Proton's chief executive.

Another widely predicted development could be the departure of Mr Romano Artioli, the Italian entrepreneur who bought Lotus from General Motors in 1992.

Proton's willingness to retain a role for Mr Artioli, whose business interests took a turn for the worse following the bankruptcy last year of Bugatti, the famous Italian car brand he revived, was critical to its success in winning the bidding war for Lotus.

Mr Artioli lives near Lotus's headquarters and remains responsible for special projects. But it is widely expected that Proton will eventually exercise its option to buy out his 20 per cent.

While change may be in the air for carmaking, Lotus's engineering consultancy, which accounts for 1,200 of its 1,700 staff, will be left to its own devices.

Proton bought Lotus to reduce dependence on Mitsubishi Motors of Japan, its technological mentor. The Malaysian company hopes to develop its first independent model before the end of the decade, although it will take a little longer before the vehicle is fitted with Proton's engines. Although the company has been expanding its research and development unit, it still employs only about 300 R&D professionals in Malaysia.

Lotus should change that. The company has an international reputation in engine development and considerable experience in the areas of noise, vibration and harshness. It is expanding into whole vehicle development thanks to Proton. A £7m (US$11m) prototype development and engineering centre, due to open next April, will concentrate on Proton's new vehicles.

But Proton knows it must not antagonise Lotus's existing engineering clients by giving the impression their work is being downgraded, or their proprietary technology is at risk. Although Lotus suffered from the vicissitudes of Mr Artioli's Italian business interests, it benefited from being independent of a big carmaker.

Haig Simonian

Black economy 'costs Treasury $32bn a year'

By Stephanie Flanders in London

Britain'e unofficial or "black" economy has grown rapidly since the mid-1980s and now costs the Treasury £20bn ($32.4bn) a year, an unpublished report for the European Commission has found.

The study, by Deloitte & Touche, tbe accountants, calculates that the black economy last year was worth about £80bn, tbe equivalent of 12 per cent of gross domestic product. It estimates that the cost to the excbequer, in lost receipts for value added tax and other taxes, could be the equivalent of nearly one-third of last year's income tax revenues.

The report is part of a five-country study into the size and budgetary costs of the European shadow economy launched last November by the European Commission.

It is likely to fuel speculation that Mr Gordon Brown, the chancellor of the exchequer, will introduce new measures to close tax loopholes and tackle VAT evasion in the Budget. However, Customs & Excise said yesterday that many measures along these lines had been introduced in last year's Budget.

"We bave appointed six special teams of officers concentrating on various areas of the shadow economy such as the construction industry where builders often do jobs for cash when they sbould be registered for VAT," said Customs & Excise.

A concerted attack on VAT avoidance announced in last year's Budget aimed to raise £700m in its first year. Over tbe last few years, VAT receipts beve fallen significantly short of the Treasury's targets, but this sbortfall has recently been declining as e result of faster economic growth.

Previous studies have put the size of the cash economy at about 6 per cent to 8 per cent of GDP.

But Mr Dilip Bbattacharyya, an economist at Leicester University wbo co-authored the report, believes that unmeasured economic activity bas risen sharply in recent years.

Weekly circus depresses toy-town

DATELINE

Bonn: shopping in Germany is frustrating, but consumers are not looking to spend extra for better service, writes **Ralph Atkins**

Saturday morning in Muffendorf, the fashionably-reserved 12th-century village outside Bonn. The houses – half timbered or newly-built – are spick and span. Littla disturbs the misty Rhineland air. Except, that is, the thought that the weekend has started and somehow the shopping has to be done.

Not even the cosy, toy-town atmosphere or the truffle-box scenery can protect the diplomats, doctors and civil servants of Muffendorf from the horrors of German shops. Horrors which lay behind two reports last week on basic structural problems facing the country's retailing industry.

But Muffendorfers have no time for the details – or to ponder Germany's difficulties adjusting from industrial society to service culture, or to worry whether a powerful economy that makes the world's best cars could in the next millennium run a cyberspace whelk stall. The sun is rising and tha Hit supermarket is only open ontil 4pm.

Down the hill, and the supermarket car park is heaving, drivers desperetely trying to find spaces, passengers left to fend for themselves. Parking for parents with children – or even marked pedestrian walkwaya – would he asking too much.

Inside the low, cramped white building, the aisles are narrow. At the fruit and vegetable section the scrum is building. The shelving is basic, the choice restricted largely to well-known brands.

Take a toddler or two – I can vouch for this – for a still greater thrill. How about trolleys that carry more than one child (commonplace in the UK)? Sorry, no.

Except the few staff would not say "sorry". Service with a smile, or even just good service is alien.

At the check-out, goods are rattled through as quickly as possible.

Didn't bring your own bags? That will be extra. Card payment is not accepted. Fail to pack fast enough and earn icy glares from the assistant and shoppers behind you. Remember the shop shnts on Sunday, fresh items will begin selling ont soon.

It is a depressing encounter. No wonder a report last week by the German association of food retailers reported that 1996 saw, for the fifth year running, a real-terms reduction in the sector'a turnover.

Longer opening hours introduced last November, which extended letest closing times to 8pm on weekdays and to 4pm on Saturday, made no difference. "Even longer ahopping hours could not entice more money out of consumers' pockets," the association concluded.

Gerd Härig, the association's chief executive, says German shoppers are not looking to spend extra for better service – at least not when it comes to buying groceries. ("The family excursion to the shopping mall as in the US, is a long way off.")

Instead the fight between retailers is strictly over price – a trend exacerbated by Germany's sluggish economic performance during the past few years. German shoppers take a list, and finish as fast as possible. The idea of supermarket shopping as a diversion is abhorrent.

Hence, the strength of discount houses, such as the Aldi chain, which last year accounted for almost 30 per cent of turnover in Germany'a food retail industry last year.

The diplomats and mandarins of Muffendorf are as likely as anyone to fill their car boots at out-of-town discount houses.

The focus on price in food buying means profit margins are perilously thin. Few pfennigs are spare for investment in new technology, consumer psychologists, wider aisles – or just a free bag. It also means poor pay for unmotivated staff.

It is a vicious circle. As expenses have been trimmed, supermarkets have become uniform with little to add value; ahopping becomes ever more depressing.

It is a circle the local council in Bonn – in the second report last week – has sought to break. A lengthy study by the geographical institute at the city's university set out recommendations for improving the quality and excitement of shopping in the snooty, but also slightly dowdy, centre of the soon-to-be supplanted German capital.

It suggested actively opposing "trading down" – already apparent eround the station – and backed improved surroundings, the promotion of high-value, exclusive brand clothing shops and the better training of staff.

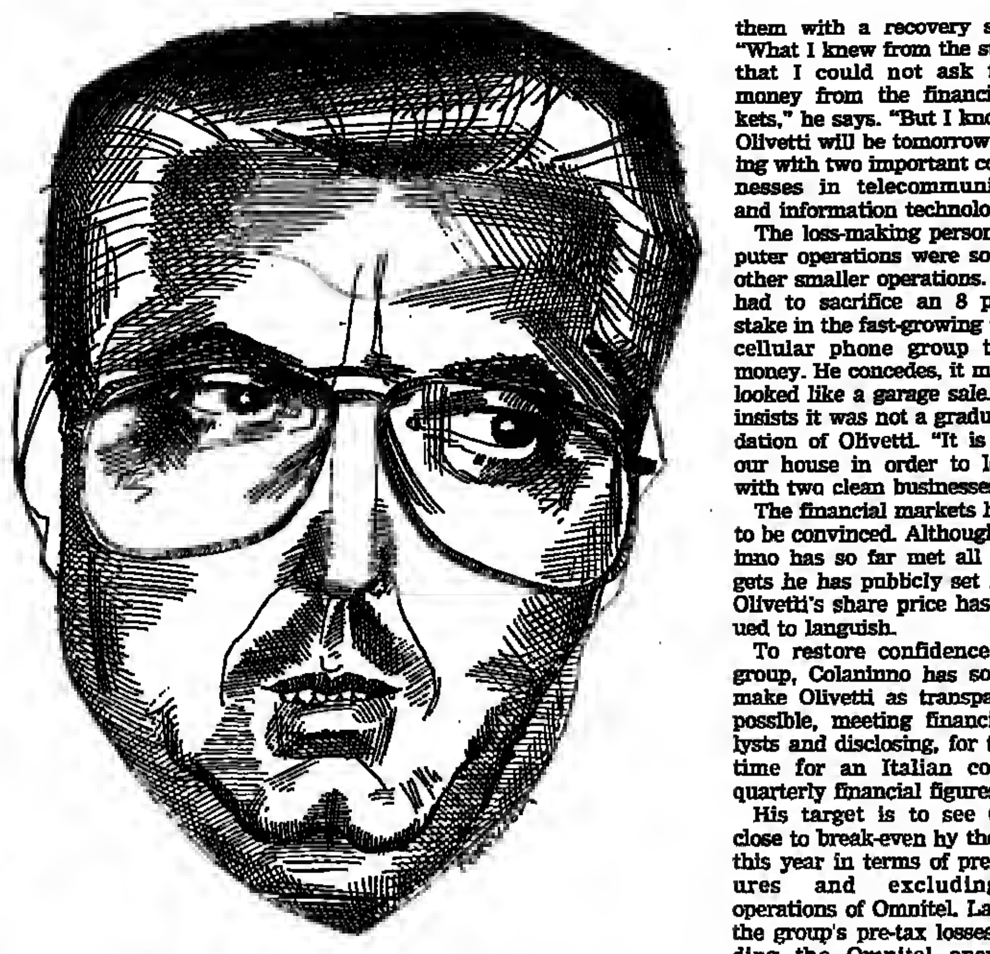
Another item on the shopping list of proposals – "customer friendly" opening hours – would end confusion created hy November's loosening of the legal framework. That led to gross inconsistences between stores on when *doors shut and open*. (The local newspaper, the General-Anzeiger, has suggested shoppers take diaries.)

The study is a commendable effort. At 227 pages, it is serious reading after a hard morning's shopping. But if the recommendations were implemented, Bonn could help vitalise Germany's tertiary economy.

The message can be simply expressed: shopping in Germany ought to be just a bit more fun.

The Monday Profile: Roberto Colaninno, Olivetti

Magician with a milk shaker



The cellular phone on the big square desk squeals. Roberto Colaninno grabs it with some irritation but his face soon lights up. "Bravo, bravo, that's terrific news," says Olivetti's new chief executive.

Had the troubled Italian information technology group clinched the deal that would guarantee its salvation? Or had the managing director he bad scolded that morning for lacking individual initiative suddenly been converted, like St Paul, to his tough entrepreneurial creed?

"No, it was my younger son. He's just passed his economics exams," explains the prond father on whose stocky shoulders rest Olivetti's recovery hopes.

For a moment, Colaninno had dropped his guard and usual reserva. Since being parachuted last September into Olivetti with the challenge, some would say, of performing an industrial and financial miracle, he has reluctantly had to face the limelight.

There could be no greater contrast between his flamboyant predecessor, Carlo De Benedetti, and this 53-year-old model of the solid, successful north Italian provincial entrepreneur going ebout his business in a quiet, efficient way.

Yet there is great mutual respect and personal friendship between these two very different characters. After Colaninno decided to leave a multinational to set up a car components company in his native city of Mantua 20 years ago, it was De Benedetti who hecame his partner and helped him build up Sogefi into a L1,000bn ($582m) a year company with 5,000 employees and plants in 11 countries around the world.

And it was De Benedetti who rang him ont of the hlue at 2pm on Monday September 16 to ask him to rescue Olivetti – one of Italy's oldest and most venerable companies which De Benedetti tried to transform into e multinational high-tech conglomerate and left on the edge of a financial precipice.

"I was living happily and quietly at Sogefi when the Ingeniere (as De Benedetti is generally known in Italy) made his proposal. The next day, at 9am I accepted for very simple and complex reasons. It was an opportunity difficult to repeat in my professional career.

He has maintained "a frank and open" relationship with De Benedetti who has now reduced his stake in Olivetti from 15 per cent when the new chief executive was appointed to slightly more than 6 per cent.

Colaninno dismisses talk that he is De Benedetti's stooge. "I've always told him what I thought even if it was not what he wanted to hear."

When he moved into Olivetti, Colaninno says he discovered "a milk shaker". The company was a mix of men, products and problems all shaken and stirred.

His immediate task was to restore morale. "Olivetti had and has excellent people who at that time were in disarray as e result of all the events that had occurred," he says.

With his experience at Sogefi, where he acquired over the years troubled companies and then turned them around, Colaninno applied the same straight forward recipe at Olivetti.

"First yon put order among the men: identify the generals, the colonels and the soldiers: create a group feeling, give your troops security and the conviction we can win the battle," he axplains.

The second step was to identify the root prohlems and address them with a recovery strategy. "What I knew from the start was that I could not ask for any money from the financial markets," he says. "But I know what Olivetti will be tomorrow: a holding with two important core businesses in telecommunications and information technology."

The loss-making personal computer operations were sold, with other smaller operations. He also had to sacrifice an 8 per cent stake in the fast-growing Omnitel cellular phone group to raise money. He concedes, it may have looked like a garage sale. But he insists it was not a gradual liquidation of Olivetti. "It is putting our house in order to leave us with two clean businesses."

The financial markets have yet to be convinced. Although Colaninno has so far met all the targets he has pnblicly set himself, Olivetti's share price has continued to languish.

To restore confidence in the group, Colaninno has sought to make Olivetti as transparent as possible, meeting financial analysts and disclosing, for the first time for an Italian company, quarterly financial figures.

His target is to see Olivetti close to break-even hy the end of this year in terms of pre-tax figures and excluding the operations of Omnitel. Last year, the group's pre-tax losses, excluding the Omnitel operations, totalled L600bn.

And once the company's financial and industrial credibility has been restored, he hopes to attract a group of stable shareholders to back Olivetti's longer-term development.

It remains a daunting challenge. But Colaninno says he sleeps very well e night and the task of hringing Olivetti back from the dead does not stop him leading a normal working life and spending weekends at home in Mantua.

For two weeks of the year he gets away from it all, fishing and honting in Patagonia.

It's the sort of peace of mind he is trying to instill at Olivetti.

Paul Betts

FT GUIDE TO:

THE IRISH ELECTION

The Irish election has been called for June 6. For a start, what do the names of the Irish parties mean?
The two main parties both prefer to stick to their original Irish names – Fianna Fail, the "Soldiers of Destiny" and Fine Gael, the "Tribe of the Gaels or Irish". The other parties include the centre right Progressive Democrats – a mid-1980s break away from Fianna Fail. The Democratic Left has its origins in the Workers party and if you scratch further in the Irish Republican Army. With the exception of the Irish Labour party, the oldest political party, and the Greens, all the other Irish parties are related.

Why are there so many political parties?
Elections are condncted under proportional representation using a single transferable vote (STV). This tends to favour and therefore encourage smaller parties.

The system was introduced by tha British in 1919, in part to ensure that Sinn Fein ("Ourselves Alone") never again enjoyed the electoral hegemony it achieved in the 1918 election, when it won 75 seats. STV was also designed to entrench the rights of religious minorities – particularly the pro-British protestants.

How does it work?
There are 41 constituencies, some three seat, some five, which together make up the 166 members of the Dail, or Irish parliament. Voters rank the candidates in order.

At the count the votes are sorted according to first preferences for each candidate. If on the first count, no candidate has reached the quota to be elected, the last candidate is eliminated and his or her votes transferred to the candidate for whom a second preference is recorded. If a candidate receives more than the quota, the surplus votes are transfered to the remaining candidates.

Parties can nominate as many candidates as they wish, though the rule of thumb is that in a three-seater the big parties nominate two candidates, and four in a five-seater where they hoped to win three seats. The smaller parties limit their candidates for fear of splitting their vote.

The system allows supporters of one party to use their second or third preference vote for candidates of another party – the so-called transfer vote – in this way expressing a view on a particular coalition.

Do people like the STV system?
The TDs (a Teachta Dala is an MP) do not. Some argue it fosters clientelism, as TDs need to spend so much time in their constituencies, ensuring their supporters do not switch their allegiance to another candidate from their own party at the next election.

But it has survived two attempts to have it removed by referendum from the statute book. The Dail certainly has a greater diversity of view. STV has also ensured that apart from the Greens, all the main parties have come experience of office. And with the polls suggesting a very close contest, some analysts believe the Greens could be the kingmakers this time.

What do the parties stand for?
There is no strictly right-left divide in Irisb politics. Both Fianna Fail and Fine Gael have a rural based support. Fianna Fail is considered more conservative on social issues, but then it was a Fianna Fail-led government that legalised bomosexuality between consenting adults, made condoms available and backed a referendum to legalise divorce. At the other extreme, the PDs tend to be the most liberal.

On Northern Ireland, as the the guardians of constitutional republicanism, Fianna Fail tends to be more sympathetic to Sinn Fein than Fine Gael. Equally, Fianna Fail is more cautious about abandoning Ireland's neutrality.

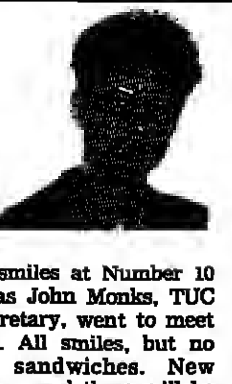
But why are there two right of centre parties?
History, in a word. Fianna Fail was the party that opposed the 1922 treaty partitioning Ireland while Fine Gael supported it. Particularly in rural areas, those divisions persist.

Will they ever merge?
That will only happen if one of the parties – probably Fine Gael as the smaller of the two – were reduced to a rump at a future election. If so, Labour would become the opposition as opposed to being the permanent party of government. But that is hypothetical. As long as the system throws up smaller parties with enough seats, Fianna Fail and Fine Gael will choose to coalesce with them, largely because it means they can retain more of the ministerial portfolios for themselves.

Has Ireland always had coalitions?
From 1950 to 1989 – when Fianna Fail went into bed with the PDs – the Irish electorate had had two choices of government:either Fianna Fail by itself or a coalition of Fine Gael and Labour. In next month's election, the outgoing Fine Gael-led coalition is seeking to be returned as a government. In the past voters have tended to vote for or against Fianna Fail. But in the 1990s new ground has been broken with the first Fianna Fail-Labour coalition in 1992 and in 1994 the current Rainbow coalition of Fine Gael, Labour and Democratic Left.

What will the general election change?
Much less than you might think. All the parties are committed to joining the European single currency. Any incoming government will be constrained by a three-year pay agreement with the unions. Perhaps with Fianna Fail back in power, there may be more progress on the Northern Ireland peace process.

John Murray Brown



Stephanie Flanders · Economics Notebook

Do unions still matter?

The falling numbers of union members still earn more

It was all smiles at Number 10 last week as John Monks, TUC general secretary, went to meet Tony Blair. All smiles, but no beer and sandwiches. New Labour has vowed there will be no special treatment for union leaders, and they look as if they mean it. All of which leaves a question for the unions: if they cannot hope for a favoured seat at the table in a Labour government, and they can no longer act as the last defence of workers in Tory Britain, what *can* they do?

One answer would be that they can do what they hava always done, the world over: get higher wages and benefits for their members. Union membership may have fallen in countries such as the UK and US. But most of the evidenca suggests that the "union wage gap" – the premium you can expect to earn for working in a unionised company rather than a non-unionised one – has not.

Union membership in the UK had risen to about 50 per cent of the workforce by 1979. At that time researchers calculated that the average wage gap between union and non-union workers was about 10 per cent, the same as it had been in 1970, when unions had not yet been marked out as the "enemy within".

In the US, where union members accounted for slightly less than 30 per cent of the workforce, the premium fluctuated around the 15 per cent mark between 1967 and 1979.

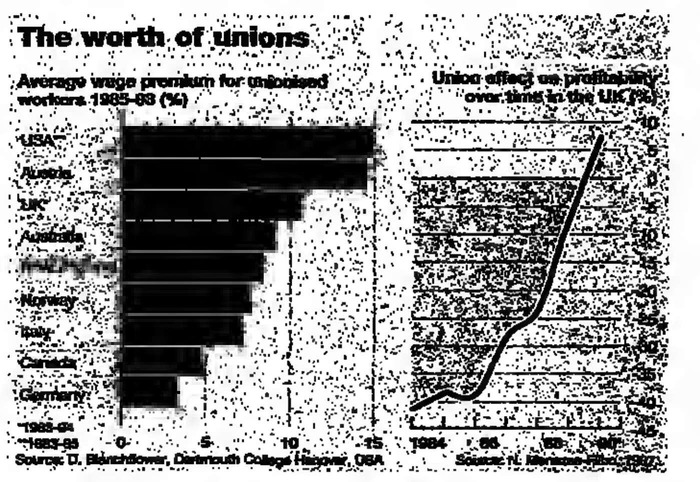
By most reckonings union plants paid the price for this premium in terms of lower employment growth and profitability relative to other workplaces.

Cut to the mid-1990s, and union membership in the UK is down to 32 per cent of workers. In the US, only 15 per cent of the labour force, and a mere 10 per cent of employees in the private sector, were members of e union in 1995. Yet recent research by David Blanchflower, an economist at Dartmouth College in the US, suggests that the union wage premium in either country has hardly budged.

Others things being equal (skill level, education, age, experience and the like), he calculates that union members in the UK still earned 12.5 per cent more than non-union workers in 1994. Stripping out the effects of the economic cycle, the union wage premium has everaged 10.7 per cent since 1983.

Blanchflower gets eimilar results in the US, where the premium has hardly changed since the early 1980a, everaging slightly less than 15 per cent between 1983 and 1995.

As the graph shows, these figures are higher than in most OECD countries. And, as Blanchflower admits: "They are hardly consistent with the widely held view that union power has been emasculated". In macroeconomic terms, unions *are* less effective: there are far fewer UK workers getting that 10 per cent premium than there were 15 years ago. But, just as we know that Conservative reforms made it easier for employers to avoid having unions altogether, it is clear they have weakened the unions' bargaining power even in still predominantly unionised companies (among other things, by making it more difficult to strike). Why did unions still manage to glean higher wages for their members?



A partial answer in the UK, discussed in an article by Naercio Menezes-Filho in the letest issue of the Economic Journal, is that they increased the company's productivity instead, and allowed the extra return to accrue to the employer rather than to the workforce. As the author notes, unionised companies tended to be much less profitahle than non-union ones in the mid-1980s. As the graph shows, the average company opting to recognise unions in 1984 could expect to see profits fall hy more than 40 per cent. By 1990, the impact on profitability was close to zero.

Menezes-Filho finds that profitability in union companies tends to be less cyclical than non-union ones, suggesting that recognising unions may positively have boosted corporate profitability during the early 1990s. Over the economic cycle, he reckons that union recognition probably still has a negetive impact on profitability, but only a very modest one.

On one level, the results merely confirm the widespread view that the impact of the 1980s trade union legislation was to take us right back to where we were in 1970. Confronted with increased management bargaining power, the relatively unproductive and unprofitable unionised companiea experienced productivity growth which permitted them to catch up with non-unionised ones. Since the gains of this prodnctivity were not captured by workers, the relative profitability of unionised companies went up, leaving the wage premium unchanged.

And yet, everything is not the same as it was. All that the results about the wage premium show is that the gains in relative profitability at unionised companies were won through reduced employment – and, ultimately, dramatic declines in membership – rather than lower wages. Given the choice between the two, unions, "chose" the first.

Menezes-Filho's results suggest that, with or without Tony Blair, the impetus for employers to extricate themselves from unions has all but disappeared in the UK. Why, after all, should a company care what its workers' earn if a small workforce – enjoying "premium" wages – can produce the same amount of profits as a large one?

Interestingly, however, the same does not appear to be true in the US, where most research continues to find a strong negative correlation between unionisation and profitability and – though this is more open to dispute – lower productivity. That may partly explain the oddity that companies in the US seem to fight hardest to prevent union recognition – evan though unions there would seem to be the weakest in the OECD.

The question, in both countries, must be whether unions can escape a future shoring np tha position of e diminishing rump of better-paid workers. In recent years, union leaders have been trying to develop an alternative role. But they are running out of time in which to find it.

Changes over time in union relative wage effects in GB and the US, Centre for Economic Performance, Feb 1997.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 28.05.1997 · Final Prices for Trading 27.04.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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On top of the gender agenda

A conference of women had better things to do than moan about Neanderthal male colleagues, says **Tracy Corrigan**

The couture salon of Bergdorf Goodman, the upmarket department store on New York's Fifth Avenue, is familiar terrain to the ladies-who-lunch of the Upper East Side.

But the 80 or so women in brightly coloured business suits who gathered there for e cocktail reception earlier this month were of a rather different ilk: they were all US partners of Coopers & Lybrand, the accounting and management consultancy firm, and they were kicking off its third annual women partners' leadership conference.

The two-day event is unusual because it is sponsored by the firm, and involves the participation of senior management, although Xerox and Hewlett-Packard have also held women's conferences. Nicholas Moore, the chairman and chief executive officer, addressed the group, and he and other senior managers, including the firm'a two chief operating officers, attended sessions.

Backing the event has been "one of the best and wisest decieions the firm hae made", believes Iris Goldfein, vice-chairman, national buman resources at Coopers & Lybrand. "It has been an empowering experience. The women partners work with management to set the agenda for management." Which means, she says, that things get done.

Coopers & Lybrand's concern is not solely the principle of equality. There is an economic rationale for the firm's commitment to encouraging women'e development.

"The face of our buyer is definitely changing and they expect people who serve them to represent them. And real diversity brings more creative solutions to our clients," says Goldfein.

For this year'e conference, she commissioned research to prove it. A survey of 600 female business executives by Louis Harris and Associates, a research company, showed that they prefer to purchase consulting services from women by a margin of 8 to 1. The survey participants also believe that women are more "responsive" when delivering services, "work harder" to make sure business needs are met, and offer a "different perspective".

Coopers & Lybrand has been among the list of 100 best companies selected by *Working Mother* magazine in the US for the past two years – although not among the top 10, whicb includes Eli Lilly, International Business Machines, Johnson & Johnson and Xerox.

But its apparent female-friendliness has yet to show itself in appointments at the top of the organisation. Only 119 of its 1,230 partners are female – and although more women are reaching partner level, there is also a higher turnover among female than male partners.

Moore has said he wants 30 per cent of the partner class of the year 2000 to he female. And since the partner conferences were devised, two women have made it to the vice-chairman level – one in information technology, and Goldfein in human resources.

The drop-out rate could be connected to the demands of partnership at a time in their lives when many women have young children. Only five of the women partners are part-time – and part-time, it turns out, may mean 40 hours a week.

Mary Jefferson, a partner in the business assurance group in Minneapolis, is one of those who has managed to work part-time as a partner. "I didn't have [three] children just to prove it was physically possible," she says.

But initially she was discouraged from reducing her hours. "When I was put up for partner [in 1992], I sat down with my managing partner and I told him two things. The first was that accounting is like a bowl of ice-cream – I loved it but I couldn't eat that big a bowl. And the second was that I don't have time to spend the money I make, so having more doesn't do me any good."

His response was that the time was not right to go part-time, but that she should go ahead with becoming a partner anyway. She did, and when she applied to go part-time a couple of years later, it was approved immediately.

Her arrangement has worked well, partly because she has been willing to be flexible, for example putting in extremely long hours for a ehort burst when a client in Kansas City was unexpectedly put up for sala. She believes part-time and flexible work practices are becoming more accepted. "The thing about starting trends is that there is so much energy spent in creating that trend. The people who follow along have an easier time."

Back at the women partners' leadership conference, participants say they did not spend their time moaning about their more Neandarthal male colleagues. Instead, they networked, discussed marketing issues and performed self-assessment exercises to highlight weaknesses as well as strengths and set themselves goals. However, for many, the conference seems to have been important because it happened, rather than because of what happened.

Jefferson believes that the first conference "gave the firm a call to action", and encouraged the management to set an agenda for diversity issues.

Margaret Enloe, a partner and general counsel, agrees: "This time it was nice because there was an assumption that there would he this meeting and [fewer] comments by the men . . . they've recognised it's useful for the entire firm." Men have also seen that "the women haven't come out with an 'attitude'. It's been positive energy."

She also believes there is a greater "general awareness that women are an important part of the firm. The current management sets the right tone. [Moore has] made this a strong focus of his agenda."

And the women involved say they came away invigorated and inspired. "To be in a roomful of powerful, articulate, hright women is a very special experience," says Karol Rose, a partner. "It's good to see that there'e more than a few of us," says Linda Ianieri, a senior audit partner. "It was wonderful to take a moment to self-examine."

Women partners in Europe may be less adept at self-examining, but there are plans to invite them to next year's bash nonetheless.

It may be overdue: according to one former partner of Coopers & Lybrand in London, some of the men in the office there could also do with a bit of diversity training. The culture for women was "appalling", she said.

Gibbon (left) and Madejski: 'we certainly went through the pain barrier'

PARTNERS

Hurst Publishing

John Madejski, 56, chairman of Reading FC, and Paul Gibbon, 50, founded Hurst Publishing in 1977. The same year they launched The Thames Valley Trader, a magazine specialising in selling cars. In 1982 they formed an alliance with Guardian Media Group and changed the magazine's name to Autotrader. Their turnover last year was £48.2m.

John: "It was a real David and Goliath battle when we launched. We were this little fledgling company taking on the big players, yet they ignored us at their peril.

"I remember Paul and I went to see a buyer for W.H. Smith and showed him the magazine. 'Have you still got day jobs?' he asked. When we said we were both still working at the Reading Gazette he said: 'Well, I suggest you put your shirts back on and go back to work; you haven't a hope in hell of succeeding.'

"It was pretty damning stuff but we went ahead anyway. I knew Paul was a first-class salesman and a hard-working guy, which is one of the reasons I asked him to partner me.

"We had to do everything ourselves in the beginning, taking photographs, selling the space, calling wholesalers, talking to dealers. We had a tiny rented office about 8ft by 6ft, which meant we had to go into the car park if we wanted any privacy. We'd say: 'Meet you in the Marina Suite,' which was Paul's Austin Marina.

"We certainly went through the pain barrier. I think you have to keep things tight when you start a business. It's dead easy to spend money left, right and centre. I say: keep it a slim greyhound of a business and build on that.

"Paul and I sing off the same hymn-sheet in terms of progress and expansion. As there are only two partners, the buck stops with us. It means any decisions are made quickly, without dithering or calling a board meeting."

Paul: "John and I have always had a healthy respect for one another. We were both achievers and both wanted to go into business for ourselves. We discarded several ideas, like opening a furniture warehouse, because we didn't have the money. Then John came back from holiday in California having seen a magazine with pictures of cars for sale. We were both selling space to the motor trade so we knew instantly this was a golden opportunity.

"Before John told me about the idea he made me sign a piece of paper saying I wouldn't copy it anywhere in the world. Obviously he trusted me!

"I remember thinking it was quite funny seeing our very first magazine on sale for 10p. We distributed half a million of them, then sat back and waited for the business to come flooding in.

"Three days later nothing had happened so we knew we had to go out and make it work. The breakthrough came after Eddie Shah took on the unions. When all the publishing houses in the Reading area were on strike, we found one that wasn't unionised and managed to get the magazine on the streets.

"From then on we began to grow. We've now diversified into other businesses and have an understanding that we offer the other a 50-50 split if it's a serious deal. When John bought Reading football club, he offered me the chance to invest but I couldn't afford it then.

"We could both afford to retire now, but I'm a great believer in having something to get up for in the morning."

Fiona Lafferty

A post-merger business depends on the calibre of its management, finds **Vanessa Houlder**

The secret of living happily ever after

Why are some deals so mnch more successful than others? The unexpected answer, according to a study of large acquisitions, is not price or strategic fit. Instead, the secret of success lies with the calibre of the post-merger management, according to Kenneth Smith and Susan Hershman, two Toronto-based partners of Mercer Management Consulting.

The need to increase the success rate of mergers and acquisitions remains as urgent as ever, despite a slight improvement since the 1980s. In a study of post-acquisition returns to shareholders of deals worth $500m or more, Mercer found that the success rate this decade has been barely 50 per cent.*

The consultants have tried to work out the factors affecting the success of deals by examining more than 340 large acquisitions between 1986 and 1996.

No link was found between the price premium – the difference between the offer price and the target's market value three months before the deal – and the value created by the deal. "It bardly means that price is unimportant, but rather that there are as many expensive deals that creata value as there are 'bargains' that don't," the consultants say.

And when the consultants looked at the role of strategy, they found no direct correlation between "better strategy" and improved returns.

Rather than price or strategy, the researchers found that the calibre of post-merger management was the single most important determinant of acquisition success three years after the deal.

That is why experienced acquirers – those that complete six or more deals a year – succeed significantly more often than do their less experienced competitors, even though they often pay high premiums, say the anthors.

They identify three factors behind successful post-deal management: a compelling, ambitious vision which is is widely communicated inside and outside the organisation; meticulous preparation of changes to the structures, processes, systems and culture; and an ahility to make changes happeh quickly.

The deals that increased shareholder value were those in which the markets saw and rewarded results, based on actions after the deal. The deals which lost shareholder value were those in which the markets were intolerant of inaction or poor results, the consultants say. "For most companies, in sbort, the deal is won or lost after it is done."

**Making mergers work for profitable growth, Mercer Management Consulting, 1 Grosvenor Place, London SW1X 7HJ.*

When your life hangs in the balance

Lucy Kellaway

Of 140 MBA students at London Business School, how many aspire to a career in corporate management. A half? A third? No: just six.

What these young things want, apparently, is a balanced life in which they bave work, fun, lots of money and plenty of time for their family and friends. That is not all. They also want jobs that will give them autonomy, responsibility, and a sense of achievement and fulfilment. That wish list, most of them believe, is simply not compatible with a career in management at a big company.

This unexpected finding comes from a survey by two professors at LBS and is published in the first issue of the FT's new monthly magazine, *Mastering Management*.

The authors say that there is a crisis of faith in managers. Outsiders do not know what managers do, and regard them at best as dull, and at worst, as greedy. Even sophisticated business school students apparently see managers through the lens of economic theory, according to which they are opportunists who can only sustain profits hy distorting and squashing tha competition.

The solution, they say, is to educate everyone ebout the valuable, essential role played by managers, the prosperity they create, the creativity they nurture, and so on.

This analysis is shocking, mainly because of where it comes from. If LBS graduates have little idea about what managers do, then one wonders if they learn anything at business school at all.

Over the past decade there has been a revolution in corporate management and one might have thought that some of this would have trickled through. Indeed, you could say that the careers big companies offer have never been brighter, salaries naver been higher, challenges never greater. According to their own rbetoric, companies promise responsibility, training and job flexibility on a scale inconceivable a few years ago.

There is, of course, another explanation. It could be that there is no crisis of faith in managers. It may simply be that suddenly everyone wants to be a management consultant or, failing that, an investment banker. If all those MBAs really do want to work for McKinsey, Boston Consulting Group, Goldman Sachs and all the rest, good luck to them. But if they believe that being a coneultant or investment banker will mean having a balanced life with plenty of time for family and friends, they may be in for a rude shock.

Caring New Labour has much to learn abont staff motivation. Its announcement that the supervisory functions of the Bank of England were to be passed to a beefed-up Securities and Investmants Board was a classic example of how not to handle this kind of thing.

Even the most ruthless private-sector company knows that the one thing you must never do is announce a big deal and leave staff dangling with no idea of how it is going to affect them.

The correct way to proceed is with a blitz of communication, with meetings, question-and-answer sessions, information sheets and fixed timetables. To deal with staff as an afterthought is the best way to ensure anxiety, demotivation and hitterness. It is also an invitation to the brightest to walk out of the door.

No one actually reads management books. Most of them are too boring and life is too short. But everyone likes to pretend they read them so that they can drop references to the latest theory or catchphrase.

A solution is offered by a company called Book Talk. Every month it will send you "key essentials" from four leading business books on a cassette. My only concern is that the company suggests the tapes he played in the car.

Surely, like cough medicine, they can cause drowsiness, and are dangerous when driving.

Just in case you missed it, last week was National Breast-feeding Awareness Week. To celebrate this, Avent has sent me details of its revolutionary breast pump.

I was about to file this information in its rightful place when I noticed thia quote from an American woman: "The great thing about the pump is its quietness. I pumped in meetings and no one had any idea."

That this woman feels she could not get 10 or 15 minutes of privacy is sad. That she boasts about working and pumping et the same time is pathetic. What does she mean, no one noticed? Didn't they wonder why she had her arm and a plastic contraption shoved up her shirt?

BUSINESS EDUCATION

Victoria Griffith investigates business schools that put their money where their mouths are

Expensive way to learn

Most business school students content themselves with pretend money when learning about the world of finance, but a growing number are demanding – and getting – real funds for their classroom pursuits.

The University of Texas launched its \$3m (£1.8m) fund last year; MBA candidates at the University of Iowa run a \$200,000 book; and students at the University of Wisconsin manage a \$1.5m portfolio.

Cornell University hopes to be next to join the real money crowd with a multi-million dollar student-run fund. Charles Lee, finance professor at the school, says he is talking to several big money managers about participating in the experiment and hopes to finalise terms over the summer.

The students' funds do not fully reflect the real life world of mooey management. They are not offered on the open market: the money usually comes as donations from alumni and private companies. During the summer months, when the classes are not in session, the funds are largely ignored.

As an educational tool, though, the students' learning experience is significantly enhanced by knowing that their decisions have real-life consequences.

"The reality of it creates a certain pressure," says Beth Schulze, who participated in the University of Texas programme and is about to take a job as an investment manager with the Texas firm Sayez Sarofin. "You pay much more attention to it."

The real money programmes offer a fuller experience than simulations because students have to fill out forms and carry out the deals through brokers. There is also an important inter-personal element to managing the MBA funds. Students are forced to "sell" their ideas to colleagues, professors or ontside investment advisers. This experience, say participants, helps build up important client relationship skills, and gives them a leg-np over other job applicants when they graduate.

Yet the funds do have drawbacks. For one thing, not all MBA candidates are allowed to participate: universities select top finance students only. At the University of Wisconsin, for instance, just 15 of 500 students are involved.

The funds are also expensive to run. Although the students are not salaried, compnters and trading commissions are costly and the funds lack the economies of scale to make these expenditures easy to swallow. High overheads and inexperienced students mean the funds tend to underperform the market in the long run.

Students complain of investment restrictions. To minimise risk, funds at the University of Iowa and the University of Texas follow stringent rules. Students must also get approval from outside advisers for any significant shift in the portfolio.

Lee, who is hoping to use the Cornell fund as a test laboratory for his investment theories, says he plans to keep a tight rein on his students as well, and will personally review all trades.

Students running the University of Wisconsin funds enjoy the most flexibility. They can invest in options, for instance, and do not need the approval of a professor or nutside adviser to make decisions.

Yet that independence also carries a price: students lost nearly all the money in one of the funds during the 1987 crash, by selling into the downturn. Fortunately, the second fund looked for buying opportunities and performed well, allowing the university to maintain its overall portfolio.

"Sometimes I do worry that the money will run out, but to get the true experience of the market, you have to let them make mistakes," says Mark Fedinia, the professor in charge of the University of Wiscoosin funds. "The students who lost all that money during the crash probably had a more valuable experience than any other class."

NEWS FROM CAMPUS

First professor of knowledge

America's first professor of knowledge has been appointed at the Haas school of business at the University of California, Berkeley. The chair has been endowed jointly by Fuji Xerox and Xerox Corporation to the tune of \$1m (£600,000).

The job has gone to Ikujiro Nonaka, specialist in knowledge creation and dissemination in the workplace and author of *The Knowledge-Creating Company*, which studied innovation in Japanese companies.

Haas: US, 510 642 8228

Management art for legal eagles

Lawyers who want to learn more about management will be soon be able to study for an MBA for lawyers, a course run jointly by Manchester Business School and tha law faculty at the University nf Manchester.

The part-time course will combine Manchester's MBA programme with tailored workshops, lectures and projects which demonstrate the application of good management practice in a legal environment.

MBS: UK, (0)161 275 6333

Knees-up for Spanish MBAs

Alumni from Iese, who are now working in Europe, will have their first organised reunion in Barcelona on Saturday.

The school is expecting nearly 300 MBA graduates to attend from 20 countries. Topics on the agenda, all to be discussed in English, include new approaches to retailing, the implications of European monetary union, and business and the internet.

Iese: Spain, 3 204 4000

Global dean at Chapel Hill

The Kenan-Flagler Business School at the University of North Carolina at Chapel Hill has promoted John Pringle to the new post of associate dean for international programmes.

Kenan-Flagler: US, (919) 962 7235

ADVERTISING

Baby boomers get the message

Alison Smith profiles a discriminating and poorly understood class of consumer

Thirty years ago they were listening to the Beatles and enjoying the Sixties after growing up in post-war austerity. Now, 45- to 55-year-olds in the "baby boomer" generation are looking at their circumstances and worrying about growing old in an increasingly insecure society.

That general conclusion comes from a study based on qualitative research into the attitudes of this group across 16 markets, including the US, Japan, Australia, the UK, and several countries in continental Europe.

It carries strong marketing messages for those seeking to address this group, whose spending power outstrips its numbers. In the UK, for example, it makes up 14 per cent of the population but accounts for almost one-quarter of household expenditure. In France, the "boomers" account for 20 per cent of spending on goods and services, while in the US the figure is 17 per cent.

Jane Gwilliam, the author of the report, says there is a striking similarity not only in the cares and concerns expressed by the boomers across all the countries where they were questioned but also about the most effective ways to communicate with them.

The prime media for reaching the boomers are television and newspapers. They spend a substantial amount of leisure time at home, and though they regard radio as more reliable than TV, the lack of "grown up commercial" stations makes it less relevant for advertising.

Most still take at least one newspaper a day, and are more inclined to pay attention to press advertisements than to inserts and fliers.

While fliers and "junk mail" are likaly to go straight in the bin, the group seems to have a more positive attitude towards catalogues.

The study concludes that neither cinema nor sponsorship is particularly effective in marketing to boomers. That is partly because they spend so much time at home, but also because they fear their concerns will be ridiculed by the young.

Boomers' attitudes towards brands, as expressed in the study, are in sharp contrast to younger people's views. Gwilliam says that while young people value the brand name itself, and may buy the product without thinking about other brands, for boomers brand names are only as valuable as the goods and services they represent and are likely to have been chosen after other brands have been considered.

The research found that boomers do not like being patronised by advertising. According to Gwilliam, the boomers grew up with television and saw advertising evolve to become more sophisticated. They are therefore more discriminating and more alert to subtly patronising overtones than young people.

"I sometimes wonder whether a 30-year-old account manager really has an understanding of what boomers have gone through."

Connecting with the Baby Boomers, Research International (0171 656 5000), £800.

Ad in the News · The RAC

'Documercials' run into hazards

You will have read about the RAC ads in these pages before they appeared. But I'll bet none of you has made it to the end of one of the 150-second "documercials" unless you are a masochistic connoisseur of pretentious advertising.

Each ad contains a series of talking heads, from a Japanese technology expert to US science fiction writers and a Henley Centre forecaster.

The heads are filmed against *futuristic cities and transport.* They speak ponderously, as if to imply that what they're saying is significant. But take an example of just how deep they are: "The future will be like the present, only more so".

If the ad had turned out to be for Microsoft or Greenpeace, perhaps we could accept it. Instead, what we get at the end is the RAC's new logo (a straight lift of NASA's) and *the laughable line: "Welcome to the* future in motion".

The campaign does not explain the leap from recovery to the "future of mobility". [Nor does it] give potential RAC customers any encouragement to find out more

Let's be charitable. The RAC's arch-rival, the AA, has conducted one of the most remarkable campaigns of the decade.

The scale of this success has left the RAC scrambling for a response. Add to that its belief that the traditional breakdown market is in long-term decline because of the improving reliability of cars, and *you can see the problem.*

So, the RAC has dropped the "Royal" association, stolen that NASA typeface, and eschewed recovery. The brief from its iconoclastic marketing director, Jan Smith (track record: First Direct, TSB, Mazda), was: "Own the future of mobility".

Client and agency believe the "controversy" these ads have inspired is half the job done.

But it's not just that the advertising doesn't explain the leap from recovery to the "future of mobility", it doesn't give potential RAC customers any encouragement to find out more.

There is no involving warmth or humanity about the ads, again in marked contrast to the AA's work.

A £4m advertising spend is not insignificant, but it is not enough to allow consumers to understand the complete message.

You may have seen grey-on-grey posters offering £25 "no call out" discounts which bear no relation to the television advertising.

In short, it all adds up to the clearest case of an "emperor has no clothes" ad campaign we've seen in years.

Stefano Hatfield

The author is editor of Campaign

Winston Fletcher · Commentary

Products pilloried

Mark my words: in the wake of Labour's massacre of the opposition any advertising for products which somebody, somewhere deems pernicious will be pilloried. You don't need to be an oracle to read the omen: cigarettes and alcopops have already been fingered. There will be more.

Prohibiting antipathetic advertising is a nice, easy, and seemingly cheap way for well-meaning politicians to earn brownie points. But the costs to society - though they may be hidden - are unquestionably high; and the effectiveness of such bans - as a new study convincingly shows is highly questionable.

First, the concealed costs. Though the prohibitionists never seem to recognise it, those who suffer most when advertising is killed off are not the products' *manufacturers* but the media. *The concealed cost:* endangering the existence of weaker media.

Outlawing the advertising of entire product sectors makes it all but impossible for manufacturers to launch new brands. *The concealed cost:* minimising consumers' knowledge of beneficial product improvements.

Moreover pole-axing the advertising of legally acceptable products is a determined step on the road to political interference, not to say political control. *The concealed cost:* a reduction in consumers' freedom of choice.

Nor does it make logical or economic sense to allow companies to make and sell products, but not to advertise them. *The concealed cost:* wasteful and inefficient marketing.

However advertising's antagonists have ridden roughshod over these concealed costs, declaring them to be insignificant when compared with the benefits to be gained. Sheer common sense, they argue, dictates that cigarette advertising must make people smoke, alcohol advertising must make people drink, confectionery advertising must make people eat more sweets.

These arguments have dogged the advertising business for as long as I can recall. But the Advertising Association has carried out an important study which unravels the paradox of why the advertising of cigarette brands need not promote smoking, the advertising of alcohol brands need not promote drinking, and so on.

The association - which represents all three legs of the advertising tripod: the advertisers, the media and the agencies - commissioned the study to investigate whether brand advertising does, or does not, increase the size of markets.

Its just published report, *Does Advertising Affect Market Size?*, masterfully written by Dr. Simon Broadbent of the Brand Consultancy, should be read, marked, learned and inwardly *digested* by *everyone* with the remotest interest in how advertising really works.

The principal finding is that the question "Does advertising affect market size?" cannot be answered until the market in question is defined.

Take, for example, premium lagers. The advertising for a premium lager brand will, it is hoped, expand its sales, which may to a lesser extent expand the whole premium lager sector, which may *to* a still lesser extent expand the total lager category, which may - though this is increasingly unlikely - expand total beer consumption, which may - though this is extremely unlikely - expand total alcohol consumption.

There is no likelihood whatsoever of an expansion in the total consumption of *drinks of all kinds.*

It is therefore possible to define the "market" in which the brand operates at five levels: premium lagers, all lagers, all beers, all alcoholic drinks, all drinks. And as the hierarchy rises the effects of the advertising fall, inversely, from significant to nil.

However the extent to which the ripples from a brand's advertising extend into the larger, ever more embracing market groupings, varies from product to product. As with drinks, every product group can be subdivided into small market sectors. These can be *aggregated* into market categories, which in turn can be aggregated into "markets".

The number of layers in this hierarchy of sectors, categories and markets also varies from product to product. *Using* the *Institute of* Practitioners in Advertising Effectiveness Award case histories, Dr. Broadbent shows how brand advertising for Sanatogen Multivitamins increased the market for all vitamin products, but not the market for medicines; and the advertising for Dulux Natural Whites increased the sales of all white emulsions, but not the sales of all paints. (Just two *examples* from a plethora detailed in the study.)

So the advertising for a cigarette brand may well increase the brand's sales, and even its sector's sales, without affecting total cigarette sales. And the same would be true for a brand of alcohol, or a toy, or a food product. There is nothing inherently self-contradictory about this, and it applies not just in contentious markets like cigarettes, but in all markets.

Indeed you will quickly see, being devoted newspaper readers, how it works for newspapers. Advertising for the Financial Times should, it would be hoped, increase the sales of his great newspaper; and the advertising might - just - increase the total sales of all quality papers.

But even the most optimistic of publishing companies would not expect the advertising of one newspaper to increase total newspaper readership and grow the entire newspaper business.

Does Advertising Affect Market Size? Dr. Simon Broadbent, Advertising Association Information Centre (0171 828 2771). £10.

Winston Fletcher is chairman of the UK advertising agency Delaney Fletcher Bozell

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey Natl Sterling Cap 8¾% Sb Gtd Bds 2004 £87.50
BG 9.5% Bds 2017 £4750
BLP 3.5p
Treasury 8¼% 2010 £3.375
Export-Import Bank of Japan 6¼% Gtd Bds 2005 $82.50
First National Building Society FRN 2000 £1484.04
GN Great Nordic 5.5% Cv Bds May 26 DKr5.50
Holders Technology 4.5p
Kerry IR2.56
Mitsui Toatsu Chemicals 5.30% Bds 2000 Y530000
Osaka Gas 5¾% Nts 1998 $287.50
Royal Dutch Petroleum F16.25
St James's Place Capital 1.125p
Sanwa Australia Finance Gtd Fixed/FRN 2004 £8750
Savoy Hotel 'A' 17.5p
Do 'B' 8.7p
Sinoare Navigation 3.75% Bds 2008 $375

■ TOMORROW
Air Products and Chemicals $35
BAe Finance 8% Nts 1997 $800
Benfield & Rea Inv Tst 0.7p
Boosey & Hawkes 7.43p
Bristol & West Bldg Scty FRN 1999 £1583.15
British Fittings 2.85p
Cardiff Automobile Receivables Securitisation (UK) No.3 Class A FRN 1998 £163.82
Carliss 5.5p
Chase Manhattan Sb FRN 2000 $142.15
CS First Boston Finance Gtd Sb FRN 2003 $29.70
Fujita Inv Co FRN 1998 $1498.85
Grassby 3.9p
Housing Finance 11.5% Deb 2016 £5.75
Iceland Group 3.8p
Inec 6% Nts 1999 Y800000
Lloyds Bank Series B Variable Rt Sb Nts 1998 £151.32
Manders 8.4p
Mowlem (John) 11.5% Gtd Bds 2013 £1150
NatWest Bank Prim Cap FRN Series C $142.19
Newport 1p
Quayle Munro 6p
Sanwa Australia Finance Gtd Fxd/FRN 2008 $3087.87
Sanwa Finance Aruba Gtd Sb Perp FRN Series 3 $795.12
Scruttons 7p
Slough Estates 10% Bds 2007 £100
State Electricity Commission of Victoria 10.5% Gtd Nts 2003 A$105
Thai-Euro Fund Partg $0.225
Ulster Television 2.85p
Wells Fargo Sb Cap FRN 1998 $143.75

■ WEDNESDAY MAY 28
Advanced Power 0.4p
Arjo Wiggins Appleton 4.8p
Arlen 0.8p
Bridgestone 7¼% Bd 1998 Y725000.0
Do 7¼% Bd 1999 Y725000.0
Do 7¼% Bd 2000 Y725000.0
Do 7¼% Bd 2001 Y725000.0
Britton 1.98p
Cakebread Robey 1.75p
Do A N/Vtg 1.75p
Capital Inds 3p
Cash Converters Int Units A$0.013
Churchill China 8.7p
Cirqual 3.27p
Delphi 4p
Denmark FRN 1998 £148.35
Elsevier FL0.56
Kobe Steel 5.8% Bd 1997 Y580000.0
Do 5.9% Bd 1999 Y590000.0
Mitsui OSK Lines FRN 1997 Y18638.0
Moss bros 17.5p
Petrofina BFr400.0
Prudential 11.5p
Reed Int 9.475p
Repeat Offering Sec Entry Fdg No 1 Class A1 (a) Asset Bckd FRN 2001 $807.70
Do (b) £848.91
Do A2 (a) $1404.22
Do A2 (b) £1587.86
Do A3 (a) $1414.11
Do A3 (b) £1577.82
Do A4 (a) $1458.81
Do A4 (b) £1621.51
Do A5 (a) $1380.42
Do A5 (b) £1582.47
Do S $1780.56
Sanyo Elec FRN 1998 Y18638.0
Servicair 3.45p
Tokyo-Mitsubishi Int Sb FRN 2000 $14215.28
United Assurance 12.6p
Vero 3.8p
Westpac Banking FRN 1998 £15.24
Wilson Bowden 8p

■ THURSDAY MAY 29
Appleyard 1.6p
Bank of Montreal C$0.40
Betterware 11.83p
Cairngorm Bldg Scty Inv Tst Units 26p
Do No 1 2.6p
Do No 2 2.6p
Do No 3 2.6p
Do No 4 2.6p
Do No 5 2.6p
Do No 6 2.6p
Do No 7 2.6p
Do No 8 2.6p
Do No 9 2.6p
Do No 10 2.6p
CIA 1.77p
CLS 3.3p
Dagenham Motors 5.5p
Invesco Cv Tst 2.1p
Kode Int 1.75p
Laporte 15.75p
Macfarlane (Clansman) 2.625p
Maiden 3.8p
Nelson Hurst 5.75p
Paribas French Inv Tst 1p
RAP 0.9p
Scottish TV 13.2p
Sothebys A Lim/Vtg $0.10
Williams 9.25p

■ FRIDAY MAY 30
ABN Amro FL0.80
Aegon FL1.61
Albright & Wilson 4.85p
Amey 8p
Atlas Converting Equipment 15p
Avonside 1p
Bank of Scot 9¼% Non-Cm Ind Pf 4.625p
Do 9¾% Non-Cm Ird Pf 4.875p
Do Und Var Rate Nts $164.31
Caldwell Inve 0.8p
Capital Corp 6p
Cater Allen Gilt & Fxd Inc Fd Ptg Pf (Gilt Inc) 9p
Do (High Yld Gilt) 20p
Chase Manhattan Sb FRN 1997 $145.35
Cookson 4.7p
Corporate Services 3p
Datrontech 4.2p
Dawsongroup 4p
Doeflex 5.2p
Dunyat Inv Tst Cv Mthly Div 0.49p
Exmoor Dual Inv Tst 1.65p
Flare 1p
Fleming (Robert) Netherlands Prim Cap FRN $306.49
Gartmore Venture Cap Tst 1.7p
Gatered Inc Inv Tst 1.7p
Do Inc 1.7p
Glasgow Inc Tst 0.8p
Global 0.44p
Great Western Fin $0.25
Group Tst 1.17p
Hays 3p
Hemingway Props 0.385p
Henderson Elec & Gen Inv Tst 10¾% Db 2011 £5.375
Homeloans (No 2) Class A1 Mtg Bckd FRN 2028 £72.15
Do Class A2 £159.31
Do Mezz £173.27
HTV 2.75p
Hunting 8¼% Cm Cv Pf 4.125p
IBC 6p
ILP IR1.32p
ISA Int 1.98p
Independent Insurance 7.95p
Irish Perm. Treasury Gtd FRN 1999 £15.71
Jove Inv Tst 3.6p
Keller 3.9p
Kleinwort Benson Prim Cap FRN $300.17
Do (Ser 2) $300.17
Litho Supplies 5p
Lloyds Bank Prim Cap Und FRN (Ser 2) $143.77
Lloyds TSB Var Rate Sb Nts 2003 £168.28
Maple Mortgage Sec Class A1 Mtg Bckd FRN 2030 £851.02
Do Class A2 £1603.10
Do Class B £1695.34
Marley 2.9p
Maycom 5.5p
McAlpine (A) 4p
MediaKey 0.75p
Merivale 1.4p
Metalrax 3p
M & G Equity Inv Tst 0.88p
Do Package Units 0.88p
Mithras Inv Tst 2.1p
MSB Int 4p
MTL Instruments 2.9p
Nat West Bank Prim Cap FRN Ser C $142.19
Nycomed Class A NKr3.0
Do Class B NKr3.0
Oliver Ashworth 1p
Partco 5.5p
Persona 4p
Quintain Estates & Dev 2p
Radiowood Mineral 2.3p
Ragby Gtd FRN Aug 1997 $14610.56
Do Gtd FRN 1998 $14610.56
Richardsons Westgarth 2.7p
Royal Bank of Canada Fltg Rate Db 2005 $47.22
Royal Bank of Scotland 5½% Cm Pf 1.925p
Do 11% Cm Pf 3.85p
Rugby 2.1p
Russell (A) 1.8p
Severfield-Reeve 3.5p
Standard Chartered 10.25p
State Elec Comm of Victoria 12¼% Gtd Nts 2001 A$122.50
Stoddard Sekers 4% Cm Pf 2p
Swallowfield 4.3p
3i Int Gtd FRN 1999 £180.56
Tibbett & Britten 12p
TI 8.75p
TMC PIMBS 5th Fin Iss No 6 Aug 2028 £35.61
Do 4th Fin Iss No 1 Aug 2030 £159.32
Do 7th Fin Iss No 8 Aug 2031 £35.16
Do Class B Iss No 8 Aug 2031 £174.13
TR City of London Tst 1.54p
T & S Stores 4.75p
Utility Cable 0.27p
Value & Inc Tst 9¾% Db 2026 £4.8875

■ SATURDAY MAY 31
Adscene 7¾% Cv Pf 3.875p

Do 7.8% Ser 2 Cv Pf 3.9p
Allied Domecq 5½% Cm Pf 1.925p
Do 7½% Cm Pf 2.625p
Allied Irish Banks Und FRN $293.86
Do Und Var Rate Nts $170.63
Australian Opportunities Inv Tst Cv Un Ln 1997 1.5p
Do 3½% Cv Sb Ln 2007 3.2859p
Automotive Precision 3p
Bankers Inv Tst 1.25p
Do 3½% Cm Pf £1.75
Bristol 11½% Rd 2008 £5.75
Capital & Counties 6¾% 1st Mtg Db 1995/2000 £3.4375
Clayhithe 9½% Sb Cv Un Ln 2000/01 £4.75
Co-operative Bank 9¼% Con-Cm Ind Pf 4.625p
Dunlop Plantations 6% Pf 2.1p
Eclipse Blinds 2p
Fleming Geared Inc & Assets Inv Tst 6.3-13.3% Ptg Pf 6.65p
Forward Technology 0.25p
Gartmore British Inc & Growth Tst 2.25p
Do Units 2.25p
Goodhead 7% Cv Pf 3.5p
Hydro-Quebec 15% Ln 2011 £7.50
Johnson Fry 2p
Lands Improvement 3p
MBL Int Fin (Bermuda) 3% Exch Gtd Nts 2002 $15.0
Midland Bank 14% Sb Un Ln 2002/07 £7.0
Paterson Zochonis 7½% Cm Pf 3.75p
Do 10% Cm Pf 5p
Peel 5¼% Cv N/Vtg Pf 2.625p
Royal & Sun Alliance Ins 7¼% Cv Sb Bd 2008 £36.25
Semple Cochrane 0.125p
Sterling Publishing 6% Cv Rd A Pf 2000 3p
THFC (Indxd 2) 5½% IL 2024 22.933
Do 5½% IL 2024 22.933
TT Fin 11⅛% Gtd Db 2018 £5.65625
Tate & Lyle Cv Pf 3.625p
Throgmorton Tst 12⅜% Db 2010 £6.15625
Do 7¼% Cv Un Ln 2008 £3.625
Trust Union Fin (1991) 8⅛% Db 2008 £4.0625

■ SUNDAY JUNE 1
American Gen $0.35
Britannia 0.5p
Cater Allen 5% Cm Pf 1.75p
Do 4.2% 2nd Cm Pf 2.1p
Fleming Inc & Cap Inv Tst 1.55p
Do Units 1.55p
Fleming Mercantile Inv Tst 4¼% Perp Db £2.125
Foreign & Colonial Inv Tst 4¼% Perp Db £2.125
General Cons Inv Tst 4¼% A Cm Pf £1.4875
Genfinance 11.49% Ln 2007 £57.45
Govett Oriental Inv Tst 5% Cm Pf 1.75p
Great Portland Estates 9½% Cv Un Ln 2002 £4.75
Hambros Inv Tst 3½% Cm Pf £1.225
Harris (Philip) 7½% Cm Pf 2.625p
Do 8% B Cm Pf 2.8p
Illingworth Morris 7% Non-Cm Pf 1.225p
Kirklees 11.6% Rd 2031 £5.80
Law Debenture 4½% Db £2.25
Lewis (John) Partnership 5% Cm pf 1.75p
Do 7½% Cm Pf 2.625p
Lister 4% Db £2.0
London 2½% Cons £0.625
Do 3% Cons £0.75
Murray Smaller Mkts Tst 4.1% Cm Pf 2.05p
Ontario & Quebec Rlwy 5% Perm Db £2.50
RPH 4% Cm Pf 1.4p
Do 8% Cm Pf 2.8p
Reed Int 4½% Cm Rd Pf 1.575p
Do 5½% Cm Rd Pf 1.925p
Regal Hotel 0.875p
War Loan 3½% £1.75
Wright (John) 4½% Cm Pf 1.575p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Chepstow Racecourse, The Racecourse, Chepstow, 12.00
■ TOMORROW
COMPANY MEETINGS:
CIA, 1, Paris Garden, S.E., 11.00
Capital Industries, Butterfly House, St Neots, Huntingdon, Cambridgeshire, 11.00
Harrisons & Crosfield, Glaziers Hall, Montague Close, S.E., 12.00
LucasVarity, Grosvenor House Hotel, Park Lane, W., 2.00
Macfarlane, Merchants House, 7, West George Street, Glasgow, 12.00
Tadpole Technology, Trinity Centre, Cambridge Science Pk, Milton Rd, Cambridge, 10.00
BOARD MEETINGS:
Finals: EMI Grp, Monks IT, OMI Intl, Smith (James) Estates
Interims: Cambridge Antibody Tech, Care UK, McLeod Russel Hldgs, Scottish Invst Tst, Smart (J) Estates
■ WEDNESDAY MAY 28
COMPANY MEETINGS:
Betterware, Stanley House, Park Lane, Castle Vale, Birmingham, 10.00
Clinton Cards, Crystal Building, Langston Road, Loughton, Essex, 10.30
Dagenham Motors, Ford House, New Road, Dagenham, Essex, 12.00
Hepworth, Institute of Directors, 116, Pall Mall, S.W., 12.00
Johnson Fry Hldgs, 20 Regent St, SW, 10.00
Kingfisher, The Dorchester, Park Ln, W, 11.00
London & Manchester, Farmers & Fletchers' Hall, 3, Cloth Street, E.C., 12.15
MTL Instruments, Power Court, Luton, Bedfordshire, 4.00
Moss Bros, 8, St John's' Hill, S.W., 10.30
Nash (William), The Gatehouse, Crayfields Ind Pk, Main Rd, St Pauls Cray, Kent, 2.15
Oliver Group, Murrayfield Road, Braunstone, Leicester, 12.00
Paribas French Inv Tst, 33 Wigmore St, W. 12.00
RAP, 10, Snow Hill, E.C., 12.00
Rolls-Royce, Queen Elizabeth II Conf Centre, Broad Sanctuary, Westminster, SW, 11.00
Royal Doulton, Minton House, London Road, Stoke-on-Trent, Staffordshire, 12.00
Walker Greenbank, Mitre House, 160, Aldersgate Street, E.C., 3.30
Water Hall, New Connaught Rooms, 61-65, Great Queen Street, Holborn, E.C., 11.00
Williams Hldgs, Intl Convention Centre, Broad Street, Birmingham, 12.00
BOARD MEETINGS:
Finals:
Anglian Water, Borthwicks, Bristol Utd Press, Dawson Intl, Luminar, Shires Income
Interims:
Alders, Celltech Grp, Foreign & Col Emerging, Kelsey, Kwaik, PWS Hldgs, Wolv. & Dudley Brews.
■ THURSDAY MAY 29
COMPANY MEETINGS:
African Lakes, 47B, Welbeck St, W. 11.30
BSG Intl, National Motorcycle Museum, Coventry Rd, Bickenhill, Solihull, 11.30
Beaufort, 2, Lisbon Square, Leeds, 11.00
British-Borneo Petroleum Syndicate, 4, King's Arms Yard, E.C., 12.00
Global, Butchers Hall, Bartholomew Close, EC, 11.00
Liberty, Saddlers' Hall, Gutter Ln, EC, 12.00
M.A.I.D., Inst of Dirs, Pall Mall, SW, 11.00
Meggitt, The Savoy Hotel, Strand, WC, 12.00
Ruberoid, 30, Furnival Street, E.C., 10.00
VCI, Royal Automobile Club, Pall Mall, SW, 12.00
BOARD MEETINGS:
Finals:
Dart Grp, ELF Petroleum, Fulcrum Invst Tst, London Intl Grp, Mid Kent Hldgs, Raglan Props, Rolfe & Nolan, Seton Healthcare, Siebe, South West Water, Tring Intl Grp, United Utilities, Plasmon
Interims:
C & B Publishing Co, M & G Grp, Richards, Stakis, United Drug
■ FRIDAY MAY 30
COMPANY MEETINGS:
ASW, The Cadogan Hotel, Sloane St, 12.00
Ashley (Laura), The Brewery, Chiswell St, EC, 2.30
Brooks Service, 210, Aztec West, Almondsbury, Bristol, 3.30
HSBC, Barbican, E.C., 11.00
RMC, Four Seasons Hotel, Park Ln, W, 11.30
Telemetrix, 28, Finsbury Sq, EC, 2.30
Union, London Chamber of Commerce, 33, Queen Street, E.C., 12.00
Vymura, Roman House, Wood St, EC, 12.00
BOARD MEETINGS:
Finals:
Barbican Healthcare, Oxford Instruments, Property Partnerships, TR Property IT, Yorkshire Water
Interims:
Ransomes, RCO Hldg

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results. This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

Back catalogue gold dust: Serge Gainsbourg, Paul Weller of The Jam, Jimi Hendrix, Elvis, and David Bowie

Recycled rock finds a niche

Back catalogue has staged its own comeback, writes Alice Rawsthorn

When David Bowie first regained control of the master tapes, or original recordings, of the 18 albums he made in the 1970s, including *Ziggy Stardust* and *Aladdin Sane*, they were valued at $3m.

Ten years later, he has sold the rights to distribute those albums, and seven more recorded in the early 1980s, to EMI Music for a $32m (£20m) advance. EMI plans to re-release the albums from autumn onwards.

Meanwhile, rival record companies are busily recycling other rock legends:

- PolyGram is issuing a boxed set of The Jam's albums next week, 20 years after *In The City*, the punk band's first single, came out.
- RCA plans to mark the 20th anniversary of Elvis Presley's death in July by issuing *Platinum – A Life In Music*, a compilation of 100 songs.
- Universal Music plans a series of releases following its acquisition this year of the rights to the recordings by Jimi Hendrix, the celebrated 1960s guitarist.

Back catalogue, as the music industry calls old recordings, has always been highly profitable, largely because the costs involved are negligible.

Releasing new albums requires hefty investment in recording, marketing and subsidising touring costs. The bill for launching a debut album in the US is rarely less than $800,000.

Few of these costs are incurred when selling back catalogue. Record companies may pay for some advertising to promote special releases, such as Elvis Presley's *Platinum*, but they generally need far less than for an unknown act. Otherwise, the only investment is in manufacturing the compact disc, now as little as 50p.

The hitch is that the majority of the $40bn-worth of records sold worldwide each year are new releases, and few artists have such enduring appeal that their old albums carry on selling years later.

There are exceptions, such as Elton John, consistently one of PolyGram's best-sellers, and Elvis Presley, whose classic 1950s and 1960s albums still sell millions of copies a year. Similarly superstar groups, such as PolyGram's U2 and Warner's R.E.M., generally benefit from healthy increases in catalogue sales to the new fans they attract by releasing new albums.

Recently, rock legends have become more popular. The highest-grossing US rock tours in recent years have been by 1960s and 1970s veterans, such as Kiss, the Rolling Stones, Pink Floyd and the Eagles.

The next comeback contenders are Fleetwood Mac, who plan to tour after this autumn's release of an acoustic version of *Rumours*, their best-selling 1977album.

The success of these acts reflects the broadening demographics of the music market. The teenagers who bought their records and concert tickets in the 1960s and 1970s, are now buying them again as affluent adults in their 30s and 40s.

What a record company really likes is for an established artist to attract a new generation of young fans, as well as nostalgic old ones. The Beatles have sold more than 40m albums for EMI since the launch of the first of three *Anthology* albums two years ago.

The Beatles are exceptional. Not only did they enjoy a rare combination of critical and commercial success, but the brevity of their eight-year recording career, coupled with John Lennon's early death, has imbued them with a mythic stature that eludes their peers, such as the Rolling Stones, now preparing for yet another world tour in their 50s.

Other rock revivals may be smaller in scale than the Beatles', but they can still be highly profitable. The Jam are cited as an influence by so many contemporary British artists, notably Noel Gallagher of Oasis, that PolyGram hopes to sell its 20th anniversary boxed set to young Britpop fans.

PolyGram had an unexpected windfall in the US last year when Danny Goldberg, president of its Mercury label, noticed that hip record stores in New York and Los Angeles were importing the compilation albums released in France to commemorate the 10th anniversary of the death of the singer, Serge Gainsbourg.

Mercury issued the albums in the US too, and sales of Gainsbourg's back catalogue have since risen steadily.

RCA has loftier ambitions for its Elvis Presley *Platinum* boxed set, part of a plethora of 20th anniversary events including the opening of an Elvis-themed restaurant in Memphis, and a series of US television specials.

Behind the scenes, ICM, the Hollywood talent agency, will be negotiating media and merchandising deals for its new client, Elvis Presley Enterprises.

EMI has yet to finalise its plans for the David Bowie catalogue, which includes thousands of hours of unreleased material. It has 15 years to recoup its $32m before the contract ends – and David Bowie auctions off his musical past again.

MARKETING

Orchestras aim to pass the baton

Victoria Griffith finds demographics transforming a classical performance art

The lights dim in the concert hall of the Colorado Symphony Orchestra, and the audience falls silent. Conductor Marin Alsop raises his baton to direct a piece by composer Scott Bradley, and over the performance stage a camera image is projected. Tom and Jerry, the famous duo, scamper across the screen.

What are Tom and Jerry doing at a classical music performance? The symphony orchestra hopes they – and other marketing innovations – will bring in larger and younger audiences.

Symphonies orchestras are not the only US entertainment form facing an increasingly grey-haired clientele.

But the demographics of symphonic attendance are striking. A study of concertgoers released last year by the National Endowment for the Arts found audiences declining for every age group under 50. According to the St Paul Chamber Orchestra, only 6 per cent of its audience is under 35.

An ageing audience eventually means more empty seats. Eight symphony orchestras have closed in the US in the last ten years. Last year alone, the orchestras of San Diego and Sacramento shut down.

What's needed, say observers, is a complete overhaul of marketing strategy.

Eugene Carr, president of Culture Finder, a Net information service about the arts, says he realised just how little symphony orchestras have changed when the New York Philharmonic recently presented a concert nearly identical to a performance a century ago.

Previously foreign concepts like "building a brand image", "measuring customer satisfaction" and "creating name recognition" are finding their way into classical music parlance.

The Oregon Symphony, for instance, has conducted market research to find out what appeals to its viewers. "Our theory is, the music's not the problem, it's how it's presented," says Don Roth, director of the orchestra.

To attract a younger clientele, the Oregon Symphony has introduced concerts under a new "brand" name, Nerve Endings. "We did it this way because it lets people know that these concerts will be different from your standard fare," says Maureen O'Connor, in charge of marketing for the orchestra.

Under the auspices of the new brand, the Oregon Symphony is venturing on to new ground. A February concert featured a corpse in the lobby, cordoned off with police tape. The corpse was a dummy of Mozart, a display designed to create a mood for that night's Mozart programme.

Another Nerve Endings performance featured a Flamenco-inspired classical music programme, complete with dancers, videos of Flamenco singers, and discounts to Flamenco parties at local night clubs.

DESIGN

A deal to bottle success

If it's expensive, French, and comes in a bottle, it probably looks the way it does because of two companies, working in very different markets, who are about to celebrate a marriage of convenience.

This week perfume design house Ateliers Dinand seals a deal with Linea, designer of drinks bottles for the likes of Moët et Chandon and Remy Martin.

Both companies are leaders in their field – an estimated 80 per cent of fine fragrance bottles worldwide are designed by Ateliers Dinand. But the partnership is unlikely to result in brandy bottles designed for the dressing table or perfume packaging that goes pop.

The main benefits are organisational rather than creative. The joint venture hopes, for instance, to make use of Dinand's overseas sales force for both companies – most of Linea's business is done within France, while 85 per cent of Dinand's is in the export market.

The joint holding company will be called Financire Castiglione SA, but the two companies will remain independent, retaining their brand names and separate studios.

"Ateliers Dinand has been in existence for more than 35 years, Linea for more than 20 years," explains Dinand's CEO Christian Jauffret.

"There will, however, be opportunities for involving members of both design teams on, for instance, one perfume project. It also means we could, if necessary, mobilise all 30 designers to work on a rush job."

Although both companies are at the luxury end of their markets, perfume and alcoholic drinks pose very different challenges, according to Jauffret. "The marketing target is very different."

Judith Gubbay

INTERNET

Time for Europe's extranet

The creation of a European extranet funded by the European Union to allow the expansion of on-line communication to continue has been called for by a group of leading media and communications professors.

The group led by Axel Zerdick, professor of economics and mass communications at the Free University of Berlin, believes that the present US-dominated internet creates too much international traffic for local information needs. "Europe should take this opportunity to build a strong pan-European infrastructure of its own," he says.

If more people try to use the internet, the only hope of a high performance network lies in a new one with a reasonable balance of regional and international traffic. The EU should invest in servers and decentralised databases "with local, regional, national and international content, to ease and speed up on-line usage in Europe."

The proposition is one of 10 theses extracted from the work of mass media and communications academics worldwide, brought together by the European Communications Council, a privately funded body set up to look at the forces and trends that will shape communications.

The money for the continuing programme of study is being provided by MGM MediaGruppe of Munich, an advertising sales house.

Apart from Zerdick, the other council fellows are Philip Schlesinger, director of the Media Research Institute at Sterling University, Percy Tannenbaum, professor of Public Policy at the University of California at Berkeley, and Alessandro Silj, director of Research on Media Associates.

Another thesis warns that the internet was not built to incorporate all the new services and will implode if used for telecommunications and listening to radio. New backbones, new overlay-networks, intranets and charging methods are emerging which will replace the present internet.

The academics warn that the much-hyped media revolution has yet to reach Europe. By mid-1996, only between 1 per cent and 2.5 per cent of the population in France, Germany and the UK used it, compared with 5 per cent in the US.

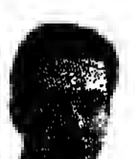
European services with European content are developing but bottlenecks remain – in particular high prices set by *de facto* monopolies which limit on-line connections. The US approach of integrating broadcasting and telecommunication regulation is the way forward for Europe, the academics believe.

Exploring The Limits – Europe's Changing Communication Environment is published in English by Springer.

Raymond Snoddy

Tim Jackson · On the Web

Dawn of micro-payment era



At a technology conference in Paris last week, I witnessed an extraordinary confrontation. It took place between representatives from a Dutch telecoms company and two US companies that sell electronic micropayments systems.

The two Americans, one from Cybercash and one from First Virtual Holdings, each made separate, persuasive pitches for a new payments system. They demonstrated smart new technologies to ease the process of buying online, and displayed charts showing big increases in the use of their systems.

But the Dutchman was unimpressed. He argued that electronic commerce is more advanced in Europe than in the US, making the point that the Dutch moved from cheques to electronic payments 25 years ago.

And he accused the Americans of cultural imperialism by trying to force European customers to adopt systems designed for US consumers.

Now I don't believe that cultural differences are the main reason why new American payments systems are making little headway in Europe. The new payments technologies are making little headway anywhere.

After nearly two years of trying, Cybercash has signed up only 800 merchants to its system – fewer than the smallest credit-card issuer.

Part of the problem is that the new payments companies have had difficulty distributing their technologies. The most common way that internet users come across the systems is on Web sites that use the technologies to sell products.

Once you have made the decision to buy something, it is irritating to be forced to fill out a form for the payments service. No one would expect to sell credit-card services to a customer who is already at the front of the checkout line at a supermarket.

So the payments companies need to sign up users of their service *before* they are ready to start buying.

But there is a more fundamental problem with the potential market. The new electronic payments systems are designed to make it cost-effective to carry out small transactions, for a few pence or dollars, at a distance. Yet consumers aren't used to such transactions, and several things need to happen before they will be.

At present, mail-order and catalogue companies sell physical goods to consumers, but the cost of delivery tends to make it uneconomic to fulfil very small orders.

When the price of the transaction rises to $50 or $100, and makes the order worth delivering, standard credit cards begin to look more attractive to merchants. They can widen the potential market from thousands of Net cranks to millions of so-called normal cardholders.

If the commodity is information, or other services, the delivery cost problem that affects low-value transactions for goods does not arise.

But services have their own problem. Because it has rarely been possible in the past for services to be sold in very small pieces, providers have different forms of subscription. Lawyers charge by the hour, not by the letter.

So consumers have little experience in valuing small-scale services.

There is also a psychological problem: a ticking meter tends to make people use a resource much more sparingly than if they sign up by the month or year – and the result might be that total revenues are less.

So are electronic micropayments doomed? I think not. First, the companies that developed them are getting better at marketing.

Other changes make the prospects more promising. Later this year, the US Postal Service will start accepting mail that is franked electronically on the printer of a standard PC.

This will eventually make it economic to mail-order packages worth $10, and will stimulate a big new low-end mail-order market.

Changes are also likely in the market for services. Directory assistance shows customers can get used to spending tens of pennies simply to find a phone number.

The long-term prospects for electronic micropayments are good. Whether the existing players will bring rewards to their investors is a different question.

tim.jackson@pobox.com

BUSINESS TRAVEL

Travel News • Roger Bray

Plans for Kiev

Inter-Continental plans to open a five-star business hotel in Kiev, the Ukrainian capital, next spring. It is likely to be the first of its kind in the country and should deflect criticism that the city has "western hotel prices without western standards", to quote a British resident.

The 11-storey, 204-room property will be opposite St. Sophia Cathedral, modelled on the basilica of the same name in Istanbul. It will incorporate a restaurant, business centre, banqueting and conference rooms, a nightclub and shops. It should be ready in time for the annual meeting of the European Bank for Reconstruction and Development, due to take place in the city.

Rooms on web

Travellers to Britain and Ireland can now trawl for hotels on a website set up by the Royal Automobile Club, the UK motoring organisation (*www.rac.co.uk*). It enables you to click on a map, tap in requirements such as conference facilities, pool or squash court, and view a list of all suitable options within 25 miles. The site covers 1,300 properties, all checked by RAC inspectors.

Peacock's tail

Executives under stress are to be offered free tuition in catching a peacock's tail, playing the guitar, or finding a needle on the seabed at Hong Kong's Peninsula Hotel. These are all sequences of movement in Tai Chi, the ancient Chinese art of keeping fit, which is said to relax nerves, stimulate blood circulation and mental alertness and improve the functioning of internal organs through deep breathing.

Classes in its mysteries will be taught on the Sun Terrace by Master Kwok Wing-Cheong each morning from July 1 to October 8.

Ticketless Spain

Iberia has launched Spain's first experiment with ticketless travel on flights between Madrid and Valencia. Passengers are able to book by credit card via a 24-hour telephone service.

There will not be automatic check-in machines at the airports. Instead passengers will use dedicated desks where they will need to show proof of identity.

Meanwhile British Airways, which has extended ticketless travel to all domestic services, says some passengers have been taking as little as 50 seconds to check in at self-service machines.

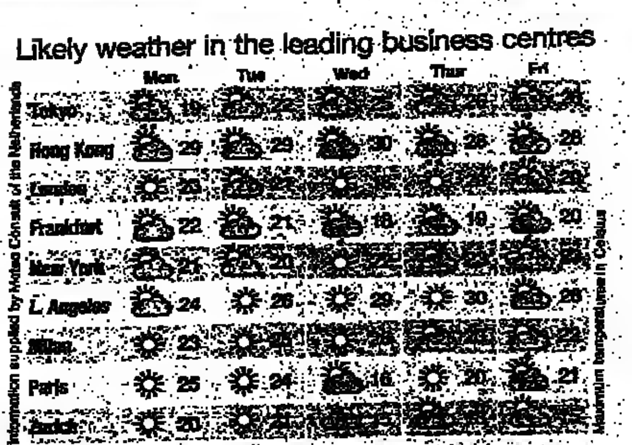
Manchester hotel

A £37m hotel is to be built in Manchester, incorporating the Italianate facades of the city's 19th-century Free Trade Hall, original home of the Hallé Orchestra. A 290-bedroom, four-star property, it will be part of the Millennium and Copthorne portfolio, which includes London's Chelsea and Britannia Hotels. It will be part of a regeneration embracing a convention centre, an amphitheatre, shops and restaurants.

New York deals

New York continues to produce summer *hotel* bargains. Manhattan's The Mark, on Madison Avenue, is cutting executive suites from $625 (£386) to $395 a night between June 27 and September 7.

De luxe double rooms will cost $260, compared with the usual $380. The 180-room hotel recently underwent a $4.1m refurbishment.



LA is a great big freeway

But it's much more fun if you are driving something out of the ordinary, says **John Griffiths**

Regular visitors to Los Angeles know that renting a car is essential to cope with the huge urban sprawl and its widely scattered commercial and industrial activities.

Usual practice for most is: exit aircraft; head for nearest rental desk and cheapest deal: pick up keys of Slushtank Anonymous De Luxe Mk11; put automatic in gear, brain in neutral; hit freeway; get lost on way to hotel.

It need not be like that. Budget Rent A Car has just injected a note of excitement into the whole tedious business – although it is strictly for the well-heeled business person or one seriously in need of an emotional lift.

In Budget's Beverly Hills scheme of things, the visitor takes the hotel courtesy bus, cab or airport limo to the hotel. Then, once duly refreshed, he or she hops into or on to an altogether more alluring array of machinery delivered by prior arrangement to the hotel.

Fancy a day or two in a Dodge Viper? Chrysler's monstrous eight-litre two-seater, more at home at Le Mans than on the freeway, is available for rent at $541 (£333) a day, including taxes, plus 54 cents a mile.

Porsche's new Boxster sports car, for which buyers are having to wait a year or more, is on hand for $270.50, plus the same 54c a mile. Mercedes' own new sports car, the SLK, for which the buyer waiting list is even longer, is available at an identical charge.

And anyone with a motorcycle licence and feeling really adventurous can leap astride a "hog", one of Harley-Davidson's legendary two-wheelers, at rates starting at $69 a day, plus taxes and with the first 100 miles free.

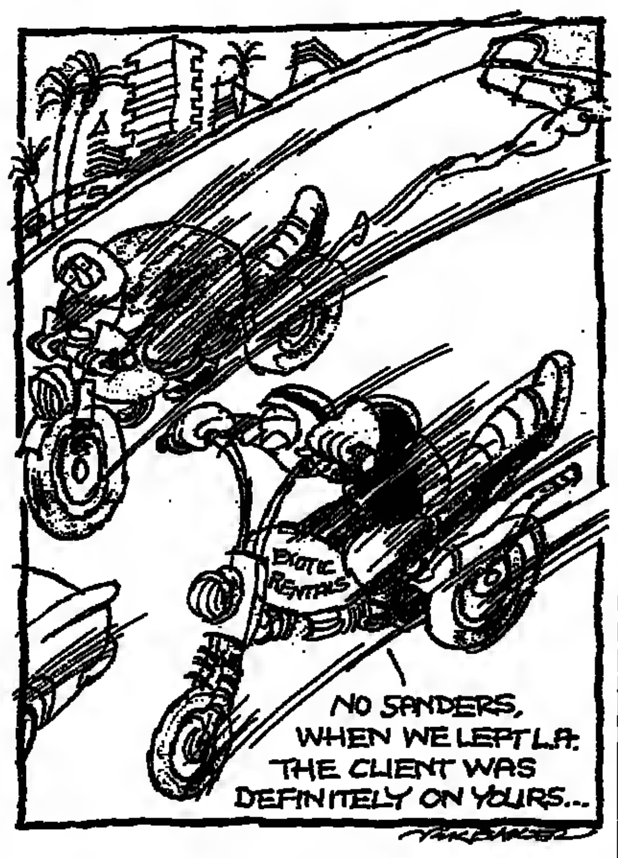
Helmet and clothing are provided. And since US drivers display none of the homicidal intent towards motorcyclists shown elsewhere, the proposition is by no means as daunting as many might think.

Budget, based in Wilshire Boulevard, claims to run the world's biggest rental fleet of mobile exotica – it includes a civilian version of the "Hummer" four-wheel-drive vehicle of Gulf war fame as well as Rolls-Royces and Ferraris. The company has tied up with more than a dozen hotels in the Los Angeles and Beverly Hills areas to operate the scheme.

It has also allied itself with California Cruisers Motorcycle Rentals to offer the Harley-Davidson scheme. The company is not alone in venturing into exotica. Avis, Hertz and other big car hire companies are also extending their ranges.

And London, in particular, has several companies, including Elite Rentals, Euro Style, Town and Country and others specialising in Ferraris, Porsches and other upmarket desirables – not all for overseas visitors.

To pay £248 a day for a Porsche 911 from someone like Euro Style, mainly to get stuck in the congestion of southern England's road system, might seem like an exercise in financial masochism. The long driving distances inevitably involved in the LA basin, however, provide a great opportunity to wrap indulgence in the cloak of transport "need".



Perils of life on the move

Business travellers are getting jumpy. A report suggests they are more likely to choose an airline with a reputation for safety than one with aircraft that leave on time. But only 29 per cent claim they always pay attention when cabin staff point out emergency exits.

The findings of the latest international Business Travel Lifestyle Survey by timetable publisher OAG show that a crash-free record has become the second most persuasive factor in the choice of an airline. A convenient schedule remains the most powerful draw.

The survey of 5,250 travellers from nine countries says 14 per cent ignore pre-take-off safety announcements altogether, with the French and Italians the most cavalier.

A reputation for punctuality, extra comfort and leg room, and efficiency at check-in are the next three most important considerations. The sixth is an attractive frequent-flyer programme, with the prospect of collecting more points tempting about 8 per cent of passengers to defy company travel policy.

But although such schemes have sucked in even more French, British and German members since last year, OAG says there is "some evidence" that their influence may be waning.

Perhaps because of the routine nature of US domestic air travel, Americans are adamant that, in return for all those dreary hours at airports, they deserve hotel upgrades and Hawaiian holidays.

The survey records a slight increase to 44 per cent in the number of business passengers travelling in economy or coach class, which may be the result of sharp increases in premium fares on many routes.

It says nearly a quarter have used the internet as a source of travel information. In the US and Japan the proportion is 30 per cent. Four per cent of Americans have made direct bookings via the web. The British, however, are "most suspicious of its reliability and the least impressed".

And anyone who imagines that business travellers are invariably from vast corporate empires should note that according to the report nearly half work for small companies with fewer than 25 employees.

Roger Bray

OAG Business Travel Lifestyle Survey 1997, Reed Travel Group, £125

Cost of doing business

European business travel costs continue to soar well above inflation, according to American Express figures.

Average business-class fares rose 5 per cent in the first quarter of this year, while hotel rates in North America and the Middle East have increased more than 10 per cent in the past year.

The American Express European Business Travel Index, a quarterly monitor of fares between 439 pairs of cities and of 829 hotels in 56 cities, shows business fares from western Europe to all regions rose in the first quarter. The biggest increase was to the Middle East – up 9 per cent and contributing to a rise of 13 per cent in two years.

Fares to North America climbed 6 per cent. They have risen 16 per cent in two years.

British business fares rose 8 per cent in the first quarter and have risen 20 per cent since 1995. But recent increases have done little more than bring prices in line with the European average. UK discounted economy tickets remain much cheaper than from other western European countries.

Kyle Davis of Amex attributes the rise in European fares to the increases in jet fuel prices, the strength of the dollar against European currencies and strong demand for travel.

He believes the worst is over. "After the biggest increases in three years of compiling the index, we think fares are going to stabilise because fuel prices have stabilised. We may even see some markets where fares come down."

The index shows that the steepest rises in hotel rates in the past year have been in Chicago and Bombay – up 26 per cent and 15 per cent respectively. The UK, Belgium and Italy are up 8 per cent while rates fell 1 per cent in Germany, Austria and Switzerland.

Amon Cohen

American Express Europe, 0171 976 4677/4498

OPENINGS

AMSTERDAM
The Holland festival opens on Sunday with a new production of *Jenůfa* at the Muziektheater. It is staged by Richard Jones and Antony McDonald, and the cast includes Gwynne Geyer, Kathryn Harries and Pauline Tinsley. Other festival highlights include a Bob Wilson staging of *La Maladie de la Mort*, by Marguerite Duras (far right), and a Mauricio Kagel retrospective.

MILAN
Welsh baritone Bryn Terfel (right) makes his debut at La Scala on Friday, singing the title role in [illegible] revival of the 1981 [illegible] Strehler [illegible] *Le nozze di Figaro*. Riccardo Muti conducts, and the cast includes [illegible]

LONDON
[illegible] Krishna is celebrated in an exhibition at the Whitechapel Art Gallery, opening on Friday. The show, which will [illegible] Huddersfield and [illegible] together over 120 [illegible] from the 16th to the [illegible] featuring [illegible] Krishna's life story. [illegible] the South Bank's [illegible] of artistic invention, opens on Friday with an exhibition by American multi-media performance artist Laurie Anderson [illegible] who has selected this year's [illegible] programme.

The BOC Covent Garden [illegible] opens tonight at the Unicorn Arts Theatre with the [illegible] premiere of Steve [illegible] musical revue *Beach [illegible] Babylon*. The festival also [illegible] a Korngold centenary tribute and stagings of Handel and Gilbert & Sullivan.

Patrick Marber, who made a brilliant impression with his first play *Dealer's Choice* in 1995, presents his second play, *Closer*, on Thursday. Again, he is his own director; again, it is presented in the Cottesloe Theatre. The cast is led by Sally Dexter, Ciaran Hinds, Clive Owen, and Liza Walker.

English National Ballet installs itself on Thursday at the Royal Albert Hall, with *Swan Lake* (what else!) danced in the round by more swans than anyone has ever before seen in captivity. The reason for going is to watch the Kirov divinity Altynai Asylmuratova, who will appear on Thursday and again on June 3, 7, and 11 as Odette/Odile. Otherwise the show is for seekers after curiosities.

BATH
Iannis Xenakis is the central figure in the Bath festival's contemporary music weekend. The opening concert at the Guildhall on Friday is devoted to music for percussion and tape, using Xenakis's computerised technique of manipulating sounds from visual images.

Portrait of the artist as a psychoanalyst

Jackie Wullschlager on a ravishing celebration which explores Freud's influence on Viennese art

Why, 150 years after the invention of photography, do we still find portraits rivetting? As long ago as the 18th century, artists were justifying them by theories of character – "a Portrait is a sort of General History of the Life of the Person it represents", claimed Jonathon Richardson, Georgian portraitist and leading critic of the day. Yet try to fix the character of most pre-20th century subjects – Titian's nudes or Velazquez's aristocrats, Gainsborough's country gentlemen or Rossetti's *femmes fatales* – and you realise you know them only from the outside: sensuous or sultry women, haughty or composed nobles.

The beginning of a new kind of penetrating psychological portrait which presents the sitter from within, as if he or she were painted on the analyst's couch, is the subject of "*Vienna 1900: Portraits and Interiors*, a ravishing new exhibition at Amsterdam's Van Gogh Museum. It places portraits by Vienna's greatest artists – Klimt, Schiele, Kokoschka – and by lesser-knowns such as Carl Moll and Kolo Moser, in the setting of contemporary interiors, costumes, theatre designs, books and other works of art, and invites us to watch how, within a generation, one city suddenly found language and symbols to express the inner life.

Nothing has shaped modern western culture more than Freud's theory of the unconscious: this exhibition paints the brilliant, troubled backcloth from which Freud emerged, and shows us why he could have come from nowhere else.

Freud's adversary Karl Kraus, who defined psychoanalysis as "the disease of which it pretends to be the cure", called 1900s Vienna "an isolation cell in which one was allowed to scream". The rich, leisured capital was the apotheosis of Europe's *fin-de-siècle* mood: it mixed weariness of life, doubts, hectic exuberance and the social unrest which would end in the fall of the Habsburgs. The mass response was a retreat into the aesthetic and the erotic. The popular hits of the 1900s – Strauss' *Der Rosenkavalier*, Mahler's symphonies, Schnitzler's plays like *Der Reigen (La Ronde)*, with its scandalous plot of shifting sexual partners, Klimt's paintings – all swoon to the cult of sensual beauty.

In a city so classical and art-obsessed that it feels like an open-air museum, the Viennese have always had a tendency to see life as a sumptuous "Gesamtkunstwerk". No one illustrates it better than society painter Hans Mackart, whose heavy red and gold interiors and nostalgic portraits seem today to embody the Viennese repression that Freud was challenging.

The opening gallery here presses in on you as Mackart's studio, all velvet and oak and dead animals, must have hemmed in the breathless crowds at his famous parties. Here is his glitzy *Midsummer Night's Dream* bedroom designed for the Empress Elizabeth's hunting lodge, and his portrait of Charlotte Wolter, the histrionic Burgtheater actress as a proud detached Messalina. Klimt once bribed the maid to show him Mackart's studio while the artist was taking his siesta. Years later, when he rejected academic realism and launched the new style of the Vienna Secession with his landmark 1898 portrait of Sonja Krups in a flamboyant pink gown, he played on Mackart's portrait of Wolter. The juxtaposition of the two pictures here shows how the young, ambitious portraitist echoed the asymmetrical figure placement and the foil of accompanying flower-bursts which, with the strong, handsome body silhouette, give Sonja a sensuous self-possession rivalling Mackart's classical model.

At the same time, hallmarks of Klimt's revolutionary portraiture – square format, two-dimensional composition, bold, fluent brushwork – are heralded here. One step away was the surface-filling, caressing strokes of Pointillism of the Marie Henneberg portrait, then on to the organic "flower fills" in which a woman's body becomes a foil for a symbolic decorative structure, as in the portraits of Adele Bloch-Bauer. In such pictures, anatomy becomes ornament and vice versa. With their appeal to the unconscious and their opulent impact, they soon had the wives of the nouveau-riche hammering on Klimt's door. His shimmering, voluptuous façades even got explicitly erotic paintings such as "The Kiss", with its gold and silver overlay of erect rectangles and oculated spirals, past the imperial censor.

We see at the Van Gogh Museum a masterly overview of his development as portraitist, culminating in the 1918 study of Johanna Staude, a new, post-war woman, self-aware, intelligent, modern, staring boldly out at us, sporting a fashionable short haircut and black feather boa.

A joy of this show is the sheer diversity of female types. Broncia Koller-Pinell's seated young nude Marietta owes much to Klimt – geometrically constructed background, decorative effects – but the face and posture are uncertain, gauche, vulnerable, rather than provocatively erotic; by the absence of insistent sexuality, she makes you realise how oppressive male depictions of the female nude can be to women. Elena Luksch-Makowsky's self-portrait with her son is another revelation – the artist, in clerical vestments, holds up the boy, crowned with flowers, as a sacrifice against a bloody background, suggesting the threat to her identity from motherhood.

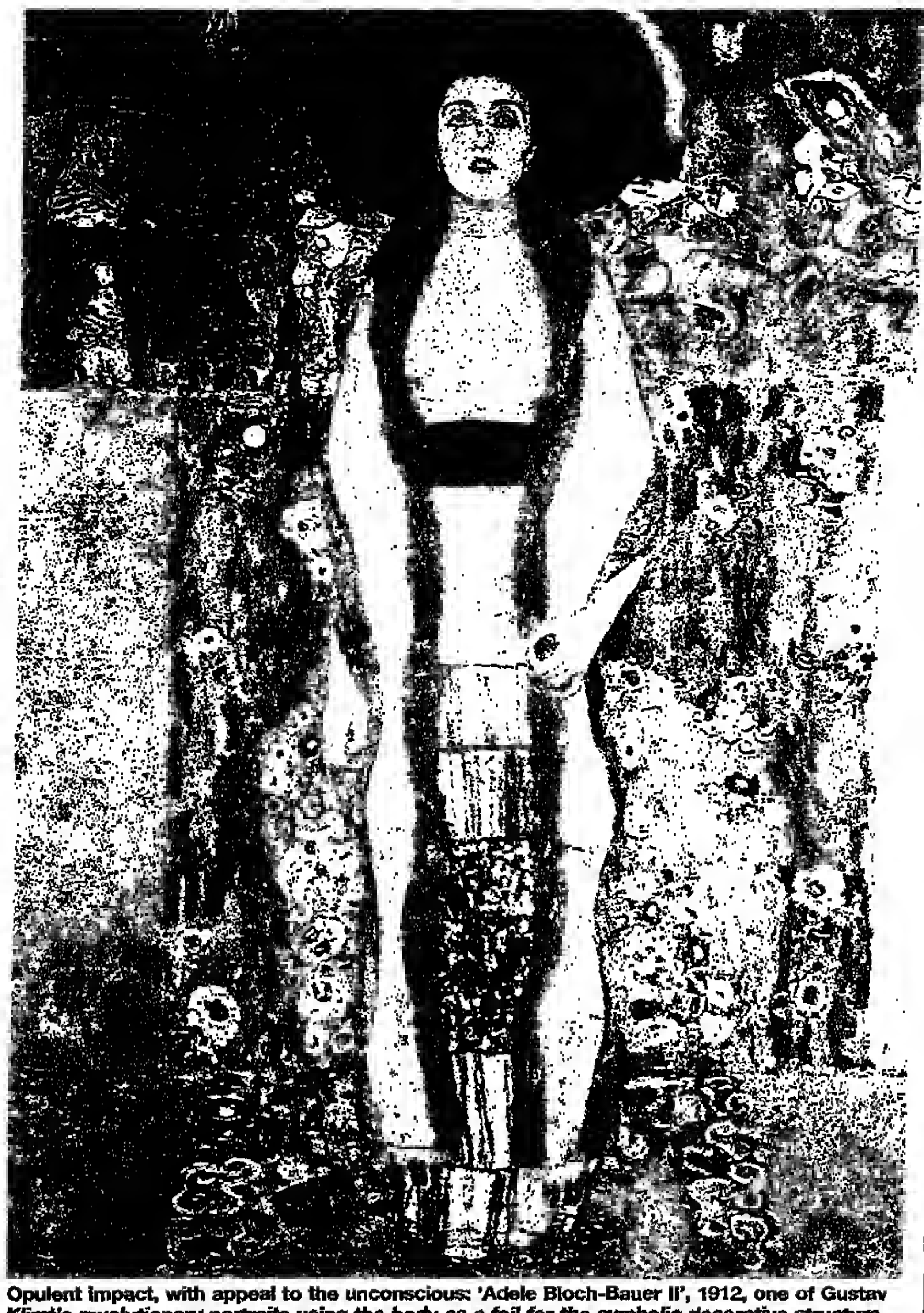
And Richard Gerstl's Fey Sisters is an extraordinary interpretation of the conflicting worlds of experience of two nearly identical sisters, setting the contentment of Karoline against the introverted isolation of Pauline. Both wear full white dresses which turn to grey as sweeps of black background invade them; the contrasting facial expressions make the work an almost schizophrenic study of agony versus calm, despair versus opulence.

Gerstl was one of the young stars of Viennese expressionism, celebrated in the final gallery here. Breaking with the rigid aesthetic beauty of Secessionist art, painters such as Kokoschka and Schiele strip sitters of their decorative wrapping and stylised forms to convey their mental states. The 1910 portrait of Eduard Kosmack, a 30-year- old publisher who looks nearer 60, marks Schiele's breakthrough to his own intense, compressed style – Kosmack's hands, placed between his knees, cause his entire body to be squeezed inwards, as if by some central, invisible force, while his eyes fix us with a strange stare which brings the psychological tension to a climax. Schiele's dark picture of Trude Engel, his dentist's daughter, with tight body held in pain, clumsy hands, wild hair and big fearful eyes, is another study of a disoriented psyche; it was painted in lieu of fees for extractions and fillings.

Most disturbing of all are two self-depictions, Gerstl's "Laughing Self-Portrait" of 1908, painted just before he committed suicide, exudes a furious contempt for the world, and Kokoschka's 1917 self-portrait is a study in exhaustion and loneliness where, martyr-like, he clasps his breast to indicate his wounds in the first world war and his struggle to find identity in the new Europe after it.

"The poets and philosophers before me discovered the unconscious. What I discovered was the scientific method by which the unconscious can be studied", wrote Freud. Of course self-portraits through the ages have given us glimpses of the inner life – Rembrandt's, for example; what makes *Vienna 1900* so resonant in our own self-absorbed *fin-de-siècle* is the examination of how, by seeking portraitists who could interpret their imaginative lives rather than merely flatter their vanity or enhance their social status, an entire society came to be fixated on self-analysis and the symbolism of the unconscious.

At the Van Gogh Museum, Amsterdam, until June 15, then at Von der Heydt-Museum, Wuppertal, 13 July-5 October 1997.



Opulent impact, with appeal to the unconscious: 'Adele Bloch-Bauer II', 1912, one of Gustav Klimt's revolutionary portraits using the body as a foil for the symbolic decorative structure

Theatre

Shaw's Madame

When watching a British film of the 1940s or 1950s, you are likely at some point to hear the plummy twang. It is the sound of an actor who normally speaks in Received Pronunciation, but is now called upon to adopt a more proletarian accent and can't quite manage it – Stanley Holloway in *Brief Encounter* is a prime example. The phenomenon has now been revived in Alan Strachan's touring production of *Mrs Warren's Profession* at the Richmond Theatre, in which Penelope Keith plays an East End girl turned international madame without quite getting her mouth around the broadened vowels and glottal stops.

But Keith gives an otherwise comfortable performance; a self-confessed vulgarian, her Mrs Warren is brash when called upon, but never downright common. At the real centre of the play, although, is Carolyn Backhouse as her Cambridge-educated daughter Vivie. Backhouse energetically portrays Vivie as a standard Shavian heroine – intelligent, feisty and plain-speaking; although she puts too much of her throat into Vivie's bolder lines, she holds the attention through the young woman's journey of discovering and rejecting her family heritage in order to forge an identity for herself.

Robert Hands, as Vivie's romantic interest Frank Gardner, is on the bland side, although never quite as insipid as his childish lover's talk might suggest. The rest of the cast are cartoons, David Henry as the pompous rector, Denis Lill as the windily selfish baronet, and Charles Kay who appears to be showing some solidarity with Keith's accent by playing Praed as Alastair Sim.

Apart from this sensitive handling of the two central exchanges between Vivie and her mother in Acts Two and Four, Strachan's directorial vision is broad and concerned more with the easy entertainment than the questions which Shaw poses. Put it this way: the keynote of the third act is not so much the revelation of Mrs Warren's business arrangements, or that Vivie or Frank's relationship may be incestuous, as the fact that these take place amid a great deal of topiary. Judging by conversations overheard in the interval, to some the play was little more than a genealogical whodunnit.

Ian Shuttleworth

On tour until July 5. Sponsored by Barclays Stage Partners.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Koninklijk Concertgebouworkest: with conductor Mariss Jansons in works by Honegger and Dvorák; May 29

■ BARCELONA

CONCERT
Palau de la Música Catalana Tel: 34-3-2681000
● Philadelphia Orchestra: with conductor Wolfgang Sawallisch in works by Brahms, Schumann and Dvorák; May 29

■ COPENHAGEN

OPERA
Det Kongelige Teater – The Royal Theatre Tel: 45-33 69 69 69
● *Der Fliegende Holländer*: by Wagner. Conducted by Dietfried Bernet, performed by the Royal Danish Opera. Soloists include Bent Norup, Stig F. Andersen and Michael Kristensen; May 27

■ DUBLIN

CONCERT
National Concert Hall Tel: 353-1-6711888
● Cora Venus Lunny: performance by the violinist, accompanied by the pianist Deborah Kelleher. The programme includes works by Beethoven, Ysaye and Sarasate; May 28

■ GLASGOW

EXHIBITION
Hunterian Art Gallery Tel: 44-141-3305431
● Altered States: The Etching Revival 1850-1929: exhibition surveying the range and popularity of etching in the late 19th and early 20th centuries. The display is drawn from the Museum's own collection and includes works by Whistler, Degas, Sickert, Augustus John, Meyron and Millet; to Aug 23

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● English Chamber Orchestra: with conductor Shuntaro Sato and soprano Lesley Garrett inworks by Yoshimatsu, Canteloube and Beethoven; May 28
Royal Festival Hall Tel: 44-171-9604242
● The Kingdom: by Elgar. Conducted by Sir David Willcocks, performed by tha Bach Choir and London Philharmonic Orchestra. Soloists include soprano Lynne Dawson, contralto Catherine Wyn-Rogers, tenor Neil Jenkins and bass Stephen Roberts; May 29

EXHIBITION
Tate Gallery Tel: 44-171-8878000
● 1997 Centenary Displays: special display marking the 100th anniversary of the Tate and featuring a number of major works from the Gallery's collection, from Stubbs and Gainsborough to Matisse and Pollock; to Jun 30
Whitechapel Art Gallery Tal: 44-171-5227888
● Cathy de Monchaux: display of work by the British sculpture who uses a wide range of materials, including brass, rusted steel, glass, paper, leather and chalk. The Lower Gallery of the Whitechapel has been transformed by a dramatic installation, described by the artist as "dream architecture"; from May 30 to Jul 27

■ MADRID

CONCERT
Fundación Juan March Tel: 34-1-4354240
● Victor Martín: performance by the violinist, accompanied by the pianist Agustín Serrano. The programme includes works by Brahms; May 28

EXHIBITION
Museo Thyssen-Bornemisza Tel: 34-1-4203944
● George Grosz. Los años de Berlin, 1915-1932: exhibition focusing on the years the German Expressionist painter and graphic artist George Grosz (1893-1959) – a founding member of the Berlin Dada group – was working in Berlin. The exhibition features some 20 oil paintings, approximately 100 works on paper, notebooks, illustrated books, and other objects; from May 27 to Sep 14

■ MUNICH

OPERA
Cuvilliés-Theater – Altes Residenztheater Tel: 49-89-296836
● Carmen: by Bizet. Conducted by Jacques Delacôte, performed by the Bayerische Staatsoper. Soloists include Maurizio Muraro, Caroline Maria Petrig and Anne Salvan; to Jun 2

■ NEW YORK

DANCE
New York State Theater Tel: 1-212-875-5570
● La Stravaganza: choreographed by Angelin Preljocaj to music by Vivaldi, Ficarra, Normandeau, Morand and Pamerud, perfomed by the New York City Ballet; May 29

EXHIBITION
International Center of Photography Tel: 1-212-860-1777
● Lauren Greenfield: display of 50 photographs examining the impact of Hollywood on young people in Los Angeles, exposing a generation motivated by materialism, obsessed with fame and the life in the fast lane; to Jul 13
Solomon R. Guggenheim Museum Tel: 1-212-423-3600
● A Century of Sculpture: The Nasher Collection: masterpieces of 19th and 20th century sculpture drawn from the collection formed by Patsy and Raymond Nasher; to Jun 1
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Iris and B. Gerald Cantor Roof Garden: special open-air display of 20th century sculpture from the Museum's collection, installed in a roof-garden which offers some apectacular views of Central Park and the New York City skyline; to Oct 30

■ PARIS

DANCE
Théâtre de la Ville Tel: 33-1 42 74 22 77
● The Land of Rape and Honey: choreographed by Liat Dror and Nir Ben Gal to music by Cohen, performed by the Liat Dror & Nir Ben Gal Company; May 29, 30, 31; Jun 1

EXHIBITION
Galeries Nationales du Grand Palais Tel: 33-1 44 13 17 17
● Paris-Bruxelles/Bruxelles-Paris: exhibition focusing on the artistic relation and exchange between Belgium and France from 1848 to 1914. Attention is paid to both visual and decorative arts, architecture, literature and music, ranging in styles from Realism and Impressionism to Symbolism and Art Nouveau; to Jul 14
Musée d'Orsay Tel: 33-1 40 49 48 14
● Emile Verhaeren: un musée imaginaire: exhibition jointly organised by the Musée d'Orsay and the Musée de la Littérature de Bruxelles, examining the life and times of art critic Verhaeren. On display are a number of paintings, sculptures, drawings and engravings by artists Verhaeren championed, including Redon and Ensor; to Jul 14

■ ROTTERDAM

EXHIBITION
Kunsthal Tel: 31-10-4400301
● Mondriaan uit de collectie Haags Gemeentemuseum: display of more than 150 paintings, watercolours and drawings completed by the Dutch artist before 1920; to Jun 8

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Die Winterreise: by Schubert. Conducted by Sylvain Cambreling, performed by Klangforum Wien. Soloists include tenor Christoph Prégardien; May 28
Musikverein Tal: 43-1-5058681
● Yumiko Samejima: performance by the soprano, accompanied by the pianist Helmut Deutsch. The programme includes works by Schubert; May 28

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Philip Stephens

Still in the game

Tony Blair has made it clear that the UK is ready to strike a bargain with its fellow European Union members

Not so long ago it was said the new European Union treaty due for signature in Amsterdam next month would be a seminal moment. The rewriting of the Maastricht accord would prepare Europe for the great leap eastwards, for a Union of 25 instead of 15. And it would add an essential political dimension to the economic enterprise of tba single currency. For Britain, the treaty would mark the fork in the road between engsgemant and eventual withdrawal.

Forget it. As Tony Blair discovered during his first experience of European summitry at the gentle Dutch coastal resort of Noordwijk, neither analysis now hears even cursory examination. His landslide election transformed the politics of Europe In Britain. But the mood has changed, too, elsewhere. Leaders who once spoke with grandiose amhition of Maastricht 2 are oow searching for the lowest common danominator for an agreement.

No one should he surprised that the British prime minister was fêted at the Noordwijk gathering. Politicians have an instinctive respect for colleagues who have just won elections. And a victory on the crushing scale of New Labour's generates a correspondingly warm, and inquisitive, response.

Less widely noticed was the subtle impact of Mr Blair's fresh-faced youth – he is just a few weeks past his 44th birthday. Helmut Kohl and Jacques Chirac, representatives of a passing generation and of an era when leadership was the preserve of late middle age, came face to face with a discomforting future.

By and large, Mr Blair handled himself well. There was a touch of gaucheness about his remark that his summit reception mirrored the one be had received from the British electorate. The soundbites – after New Labour, New Britain comes New Millennium, New Europe – carry the echo of opposition. After three weeks in 10 Downing Street, Mr Blair has not got the tone quite right. When yon are prime minister, understatement can be as effective as hraggadocio.

Some heard a jarring note too in Mr Blair's Thstcherite rhetoric on lahour market flexibility and competitiveness. But, if the Anglo-Saxon model will always fall hard on continental ears, he is right to judge the tide has turned against the Delors' vision of a social Europe.

And the substance in Mr Blair'a message was thst, save for a non-negotiahle bottom line on border controls, Immigration and defence issues, Britain is ready to strike a bargain in Amsterdam.

Though it seems hard to credit at this short distance from the alection, if John Major had been returned to office even this minimalist package would have triggered a crisis. In their introspective obsession with national sovereignty, the Conservatives had elevated the draft treaty into a frontal assault on the nation state.

Mr Blair'a parliamentary majority renders such paranoia powerless. No douht the Conservative rump at Westminster will oppose any document he signs, which in itself will be an important moment for the party which took Britain into Europe. But for now the nation has tired of the Eurosceptics. There is potent symholism in the fact that at the moment the prime minister is negotisting in Amsterdam, the Tories will be electing s new leader.

> Kohl and Chirac have decided that prolonged wrangling over a new treaty must not get in the way of the grand design for a single currency

The other fortuitous coincidence lies in the decision of Messrs Kohl and Chirac to lower their sights. Prolonged wrangling over a new treaty, they have decided, must not get in the way of the grand design for a single currency. As one foreign minister told me, it is time for the caravan to move on. Soon.

Mr Kohl once harboured great hopes for Maastricht 2. Now his preoccupation is with ensuring that economic and monetary union begins on schedule in January 1999. Mr Chirac, fingers crossed he will preserve a small majority In the French elections, shares the anxiety about expending too much political capital in public wrangling over Europe's institutions.

In this, the small state of Denmark is playing a vital restraining role. The government of Poul Nyrup Rasmussen has warned that anything bearing the label of political unlon will require a referendum. Memories of 1992 – when the Danes' initial rejection of Maastricht unnerved the currency markets and provoked a crisis in the exchange rate mechanism – are fresh in European minds. There is no appetite for a repeat performance ahead of Emu.

So the Amsterdam summit will settle for a modest package. There will be enough institutional reform for a first phase of enlargement to admit the Czech Republic, Poland and Hungary. The treaty will give a European dimension to the basic rights of the citizen. Tighter foreign policy and defence co-operation will provide for a distinctive EU role in peacekeeping and humanitarian operations. And an opt-out for Britain, Ireland and Denmark will allow others to hegin dismantling national horder and immigration controls.

More important will be a deal on a so-called flexibility clause allowing future integration to proceed at a variable pace. In years ahead, this will challenge Mr Blair's real intentions as to Britain's role. But it is within the wit of the Foreign Office to finesse tha immediate awkwardness.

Lady Thatcher, who we learn has been one of the early visitors to Mr Blair's Downing Street, will not take quite such a sanguine view. She lives still in the days when she danced with Ronald Reagan on the world stage. But she never understood the mutual dependency in Britain's relations with Europe and the US.

I suspect (or at least hope) Mr Blair's Invitation had more to do with his determination to break with the old tribalism of British politics than to the wisdom of the Lady's judgments on foreign affairs. As President Bill Clinton will remind his host when he visits Downing Street later this week, Britain counts In Washington largely to the extent it has clout in Europe.

Herein lies the significance of Mr Blair's first foray across the Channel. He has kept Britain in the game. He should not be misled by the plaudits in Noordwijk. Emu Is now about as close as It can get to a certainty. It will transform the politics as well as the economics of Europe. Standing aside, Mr Blair will not find it quite as easy to learn the rules of an altogether tougher game.

LETTERS TO THE EDITOR

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Cost and competence are key factors in changing City regulatory structure

From Mr Lynton Jones.

Sir, Peter Martin fears that the new super-SIB is in danger of turning into Dr Frankenstein's monster ("Birth of Brown's brainchild", May 23). Let us hope that one such creature roaming the streets of the City will be easier to manage and cheaper to feed than the several that exist today.

One of the principal advantages that should stem from the proposed change, and which featured nowhere in Peter Martin's articla (but which was highlighted in the chancellor's statement) is the potential saving in the cost of regulation. Before the election Labour MPs who were then shadowing City affairs were talking about changes on the lines now being proposed resulting In cost reductions in the region of 15 to 20 per cent in the overall cost of regulation.

It is of the utmost important that this objective is not lost sight of in the forthcoming reorganisation. A main concern of investment exchanges and their members is the seemingly inexorable rise in regulatory costs. Member firms of investment exchanges face a douhle whammy – in addition to having to bear the cost of membership of the Securities and Futures Anthority they have to pick up the cost their investment exchange has to pay to SIB for being regulated hy it.

Combining the self-regulatory organisations with SIB should not, as the governor once said, simply result in changing the brass plates on the doors, but should be used as a very serious opportunity to rednce significantly the cost to the industry of regulation.

Lynton Jones,
chief executive,
The International Petroleum Exchange of London,
International House,
1 St. Katharine's Way,
London E1 9UN, UK

From Mr David W. Clark.

Sir, Your leader on the "super-Securities and Investment Board" ("All change for the super-SIB", May 21) congratulates the UK chancellor on his regulatory reform initiative. While few would disagree with your comments on the present bureaucracy and infrastructure in respect of the retail sector and the need for modernisation, many in the wholesale and international banking world are concerned that the baby may be thrown out with the bath water.

Tha clear distinction yon refer to between the retail and wholesale sectors goes much deeper than the squabbles between SIB and the SROs and the overlapping of financial products. Since the publication of the Barings report and the consultancy work done hy Arthur Andersen, the Bank has initiated its own reform of supervisory techniques and objectives that relate specifically to the professional banking sector. These focus on complex risk and market-related issues that emerge from the high-profile accidents of recent times, especially In derivative products and their pricing and reporting.

This has little to do with the retail sector, with which the government is rightly concerned, hut everything to do with strengthening the banking sector's ability to handle new and sophisticated instruments used mainly by professionals. These efforts play a significant role in enhancing the City's reputation in an international field it must fight its corner for, and it is not obvious that the skills currently being built up in the Bank can be replicated outside a banking environment.

Banking supervision, especially in the City which plays host to so many foreign banks, serves an entirely different community to those selling pensions and other domestic financial services, and impacts on the way international financial markets work. As legislation is prepared for building a modern regulatory environment for UK financial services under the auspices of SIB, perhaps the chancellor might ponder again on whether he would serve that sector better by treating it as a specific industry and in doing so separately promote the prudential strength and international competence of the banking sector by leaving banking supervision where it needs to be – close to the banks, and in the Bank of England.

David W. Clark,
executive general manager,
Bank Gesellschaft Berlin,
1 Crown Court,
Cheapside,
London EC2V 6JP, UK

From Mr John Arrowsmith.

Sir, The Bank of England is being made to pay a high price for its acquisition of operational responsibility for interest rates. Separatioo of responsibility for monetary policy from other key functions such as financial supervision and government funding and debt management may be justified on two grounds: avoiding a conflict of policy interests and preventing concentration of too much power in one non-elected body. But this presupposes the central bank has sole responsibility for monetary policy. If that were what the Bank was being offered, there should be proper debate about the constitutional implications and the framework for democratic accountability. What the chancellor is ceding to the Bank, however, may have more form than substance.

The chancellor alone will set and change the Bank's inflation objective and the four outside members of the monetary policy committee will be appointed entirely at his discretion. With the appointment of two deputy governors this year and the expiry of the present terms of the governor and the executive director responsible for monetary policy operations next year, he will be able within the next 12 months to secure the appointment of eight of the nine committee members. Six of the nine can then be replaced on a rolling basis every three years. This is a far cry from independence within the meaning of the Maastricht treaty: further institutional upheaval would be required if the government were to decide at some point to take part in monetary union.

It may yet be that the chancellor will stick resolutely to a firm inflation target and that he will pack the monetary policy committee with people noted for their independence. If not, the governor may have acquired, instead of what he has often call the poisoned chalice, a mess of pottage.

John Arrowsmith,
senior research fellow,
National Institute of Economic and Social Research,
2 Dean Trench Street,
Smith Square,
London SW1P 3HE, UK

From Mr Wynne Godley and Mr John Wells.

Sir, If the British economy is to sustain growth in the medium term, personal consumption must now be held in check so that interest rates and the exchange rate can come down. In the absence of new controls over credit, taxes in the Budget should probably rise by £10bn ($16bn) or more.

But even if the chancellor were to raise taxes on this scale, suppose the Bank still felt threatened by inflation and put up interest rates, causing sterling to rise further. Who would be responsible for the ensuing recession? How and by whom would it be brought to an end?

It is not true that central bank independence has always been a success in the countries where it has been tried. For instance, US fiscal and monetary policy pulled in opposite directions during the Reagan/Volcker years, seriously unbalancing the economy with consequences that still persist.

Wynne Godley,
John Walls,
Jerome Levy Institute and Faculty of Economics,
Cambridge University,
Sidgwick Avenue,
Cambridge CB3 9DD, UK

Benefits of Boeing deal

From Mr Harvey M. Sapolsky.

Sir, Boeing's acquisition of McDonnell Douglas should be praised rather than challenged as the EU has done ("EU could outlaw Boeing merger", May 19).

There are domestic as well as international benefits in the deal. Boeing in effect removes one aircraft manufacturer from the vastly oversized US military aircraft industry with the potential of reducing producer demands for work. Commercially, the Boeing-McDonnell combination will likely force increased rationalisation of the Airbus Consortium, strengthening its competitive position.

No one should believe that Boeing's commercial strength comes from US government subsidies. Its military and space orders are limited or focused on special technologies. Fallen commercial rivals like McDonnell Douglas and Lockheed have much larger Involvement in the military transport business. Airbus partners are much more linked to government subsidies than is Boeing.

Harvey M. Sapolsky,
Massachusetts Institute of Technology,
Cambridge,
Massachusetts 02139, US

Rules felt to be rigged

From Ms Lucy Shiels.

Sir, I read with interest that a single regulatory body will help the UK government "to stop the EU from rigging the rules In order to reduce London's market share in European finance after Emu" (Letters, May 22).

The recent dismissal of the German government's action against the directive on deposit guarantee schemes by the European Court of Justice has no doubt caused the German government to feel that the EU is also rigging the rules to reduce Germany's market share in European finance after Emu. Is this not a case of the grass always being greener on the other side?

Lucy Shiels,
Schumannstrasse 49,
60325 Frankfurt, Germany

Optimistic prospects

From Mr Owen Cylke.

Sir, Jeffrey Garten paints a discouraging picture of the prospects for the emerging world in his Personal View (May 21). There is a more promising prospect. Over the next 20 years, tha modernising economies of east Asia, Latin America and eastern Europe will install up to 80 per cent of the industrial capacity they will have in the year 2010. Think of it: existing industrial plant will represent only 20 per cent of total industrial output in the emerging markets and, by the year 2020, less than 10 per cent. What a prospect to build on.

Mr Garten'a global companies are already largely transformed in terms of economic, social and ecological values. International standards and norms, built on these important values, are beginning to override claims of national or regional, even corporate, singularity. Indeed, the forces of globalisation, liberalisation and integration are transmitting these standards, norms and values to the farthest corners and smallest enterprises of the world.

Even the most powerful companies and states find the marketplace and international public opinion compelling them more often than not to follow a particular course – increasingly reflecting these new standards and norms. The almost giddy reaction to ISO 14000 in emerging markets is one promising example from this fundamental redistribution of power among states, markets and civil society.

Perhaps we need to be wary of blind optimism, but there is no reason for pessimism.

Owen Cylke,
senior adviser to the US-Asia Environmental Partnership,
Winrock International,
Washington, D.C., US

Pressure for a fundamental change

From Mr Makoto Nambara.

Sir, Michiyo Nakamoto's article, "Death of the salaryman" (May 17/18), was stimulating. While agreeing with her comments in principle, I would like to express my views on the current trends. Based on my previous joh experience in Japan, her analysis is varied for salarymen hetween 30 and 40 years of age.

However, today Japanese companies are applying two different styles of management principles: one is classical Japanese and the other is innovative. Toyota and Nomura belong to the former while Sony and Nintendo are examples of the latter. As we have seen, both management styles boast strong productivity and yield profits. However, their management styles are completely different and I am very interested in predicting which group will survive the 21st century's global economy.

In Japan we are seeing increasing numbers of flexible, more individually-oriented and internationally-minded companies. It is my view that these companies are adopting the appropriate styles of both American and Japanese management systems. The synthesis of these two styles will be paramount to survive in the 21st century market.

Nakamoto's report mainly applies to the traditional Japanese conservative-styled companies. The question arises: how can they maintain strong economic strength without offering security of lifetime employment and other benefits?

It seems that the meek and humble middle-aged salaryman will soon realise that his company is no longer reliable.

With this realisation, his loyalty and contribution to the company will undoubtedly decline. Therefore, management styles as well as the salaryman's approach to his joh must fundamentally change.

Makoto Nambara,
PhD candidate,
SOAS,
The University of London,
Dinwiddy House Rook 5BA1,
189-205 Pentonville Road,
London N1 9NF, UK

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Let the buyer beware

Electronic trading is transforming the securities markets – and the way that they are reguleted. In a paper published over the weekend, the Securities and Exchange Commission says it is contemplating the biggest change in the way it regulates US stock exchanges since it was set up in 1934. To meet the challenge, it has come up with one good idea, and a fig leaf.

Its starting point is the growth of electronic trading systems, such as Instinet, as an alternative to traditional exchanges. There are already more than 20 auch systems competing for orders with established US markets, and their combined trading volume is over one and a half times that of the American Stock Exchange and all the regional exchanges combined.

The SEC recognises, rightly, the benefits whicb investors have already received from the development of innovative electronic systems. And it wants them to be allowed to compete fairly with tbe established exchanges.

At present, tbese alternative markets can take part in the national market system only under terms set by the registered exchanges with which they compete. The best way round this would be to set up a tiered framework of regulation.

Smeller markets would be subjected only to limited disclosure requirements. The second tier would take in the largest alternative trading aystems, which would probably have to take on some regulatory responsibilities. The top level would cover the big exchanges already registered with the SEC.

But while that would represent a big step in the domestic market, the growth in electronic cross-border trading is another issue. The problem is that the internet is killing those rulebooks which have depended on information flows being contained within national borders, and channelled through a small number of intermediaries. When it is as easy to dial up Bangkok as Brooklyn, old-fashioned regulators have a problem.

The SEC'a favoured idea for dealing with electronic cross-border trading is less impressive. This would set up a regulatory framework to cover the US activities of those entities that provide US investors with direct access to a foreign market. But in an era of electronic commerce, attempts to funnel husiness though officially approved intermediaries seem doomed to failure.

The SEC has alweys resisted the notion that investors should be allowed to make up their own minds about whether they are going to be taken for a ride. Of course, there is much work to be done in international co-operation to deal with crooks. But coming to terms with the principle of *caveat emptor* may be the biggest change which the SEC now has to contemplate.

A wise warning

For six years the European Bank for Reconstruction and Development has struggled, with some success, to attract foreign capital and investment to the former communist economies. Last week, however, Mr Jacques de Larosière, the bank's president, sounded a note of warning. He cautioned would-be lenders and investors to look more carefully at the risks involved in investing in this complex region.

The warning should be taken seriously, especielly coming from a man who, as former managing director of the IMF, dealt with the Latin American debt crisis of the 1970s. He sees parallels in the emerging markets of eastern Europe today.

There are certainly signs that in their search for higher-yielding assets, some lenders are not demanding sufficiently stringent conditions from often inexperienced borrowers. Rising corporate lending has been accompanied by a rash of sovereign, municipal and corporate bond issues at ever tighter rates in recent months.

The EBRD's concern could be construed as sour grapes. Senior benk officials heva become increasingly frustrated as carefully constructed deals, sometimes on the point of signature, have been snatched hy commercial banks offering cheaper terms and easier conditions. Critics claim this is because the bank is too slow in reaching decisions, and too expensive.

This might sometimes be the case. But recent events have given ample warning that investment in this region carries significant risks. Albanie may be an extreme case, but Bulgaria only just avoided a systemic collapse of the banking system recently. The Czecb Republic, which two years ago was widely seen as a reform success story, is currently facing a run on the currency. As for countries in the former Soviet Union, their economic reform remains patchy and corporate governance inadequate.

Foreign investors have so far heen ahle to cherry-pick the best companies or lend to countries, such as Hungary, which have been able to offer the greatest legal and institutional comfort. But high liquidity in international markets means that lenders are going for more obscure regions and companies in the search for higher yields.

There is a yewning gap between the best and the everage in the former communist world. The EBRD is the biggest. and most experienced investor in the region. It is ohliged by the terms of its cbarter to observe sound banking principles and to apply due diligence. It is right to point out thet the risks rise strongly off the beaten track. Private investors would do well to heed its advice.

Regional pitfalls

The UK's new Labour government has lost no time in pushing forward its proposals for regional development agencies. The idea is broadly supported by many business people in the regions and hy local authorities. But careful thought is now needed on how the agencies will operate during the consultation period before legislation this autumn.

The Conservative government's centralising tendencies and fierce resistance to regional government produced a paradox: a flowering of local entrepreneurial activity aimed at local and regional economic development.

New partnerships between business, industry, local authorities and the voluntary sector have grown up – notably in the north-east and north-west. The partnerships were born of frustration with London's lack of local knowledge. Businessmen were also alarmed hy the lack of regional voices in Brussels.

Tbeae informal groupings were fostered by the one decentralising gesture which the Conservatives did make – the creation of government offices for the regions in the regions. They were further strengthened by the bidding system for government and EU subsidies for urban regeneration.

The new agencies must be designed to preserve the best out of these alliances. They will also need to provide a sharper focus to the plethora of bodies which now have a stake in economic regeneration: chambers of commerce, Training and Enterprise Councils, Business Links, local authorities, English Partnerships and the government offices for the regions.

They must avoid becoming another bureeucratic tier, whicb would prevent local enterprises from thinking for themselves. In promoting inward investment, the agencies must not encourage an increase in job snbsidy hidding wars between regions for foreign direct investment. The bettle between Wales and Scotland over the LG plant provides a lesson of what to avoid.

A further complication will be the relationship between the agencies and the regional chamhers of councillors which the government is establishing as a possihle precursor for full regional government. This idea is much favoured in the north-east and extreme south-west, but arouses little enthusiasm elsewhere. With the government offices for the regions set to remain, the new agencies on the scene, and non-statutory chambers of councillors becoming more active, the stage could be set for a tussle more about political control than economic development. Careful scripting will he required to avoid these dangers.

Issayas Afeworki of Eritrea ▶ Meles Zenawi of Ethiopia ▼
▲ Yoweri Museveni of Uganda
◀ Paul Kagame of Rwanda
▲ Laurent Kabila of Congo (Zaire)

Ripples of a revolution

The rebel victory in the former Zaire has implications for the whole of Africa, write **Michael Holman** and **Michela Wrong**

It may go down as the start of Africa's second liberation. The rebel takeover tbat transformed Zaire into the Democratic Republic of Congo and dispatched President Mobutu Sese Seko into exile is reverberating across the continent and beyond.

The prospect that a country nearly the size of western Europe now has the chance to recover its position as one of the world'a leading producers of cobalt, copper, diamonds and coffee is dramatic enough.

But the victory of Mr Laurent Kabila, Congo'a new president, represents much more. He is the beneficiary of a new nationalism at work on the continent. A determined handful of leaders is challenging the orthodoxies that moulded post-colonial Africa, inspiring opposition parties through the region, from the *anciens régimes* of francophone Africa to the autocratic governments of Kenya and Zimbabwe.

The implications of the collapse of Zaire's regime – possibly the most important event in Africa's post-colonial history after the dismantling of apartheid in South Africa – go still further. It also marks the start of e new, more assertive, relationship with the western governments and aid agencies.

"They will have to come to terms with a more confident generation of African leaders determined to apply African solutions to African problems," says Ms Rakiya Omaar of Africa Rights, the independent London-based body that monitors political developments on the continent.

At the core of these "new Africans" are the men who helped bring Mr Kahila to power: President Yoweri Museveni of Uganda, who led a guerrilla campaign to overthrow Milton Obote in 1986, and General Paul Kagame, Rwanda's military chief, wbo joined him in providing covert military assistance to Mr Kabila's rebel forces.

Moral support came from President Issayas Afeworki, who led Eritrea to independence after a 30-year war with neighbouring Ethiopia; and Mr Meles Zenawi of Ethiopia, whose forces helped topple Mengistu Haile Mariam.

Self-assured and well educated, indebted neither to Washington nor Moscow, they are unencumbered by the inferiority complexes that burdened a generation of post-colonial politicians. The leftist ideology of their youth has been replaced by economic pragmatism, courting foreign investors and privatising state-owned companies. They challenge what they see as the imposition of western models of democracy in return for aid – though they accept the need for representative government. They are scathing in their assessment of the Organisation of African Unity, arguing that it has been ineffectual in its efforts to resolve conflicts and promote development. And they expect greater accountability from foreign non-government organisations, which they cbarge with exercising power without responsibility.

Togetber with President Jose Eduardo dos Santos of Angola, who gave military and logistical support to the rebels, it was these men whose influence was decisive es western governments attempted to shape the outcome of the final phase of Mr Kabila's advance on Kinshasa.

Time and again, the US and France were rebuffed, while South Africa – trying to bridge the gap between Mr Kabila's backers and the west – was equally unsuccessful in trying to divert the rebel leader from his objective: the unconditional surrender of Mr Mobutu. The days when western powers, particularly France, were able to control events may be gone forever.

Meanwhile, UN and foreign aid agencies were being given equally short shrift as they complained about lack of access to scores of thousands of Rwandan refugees in eastern Zaire, whose ranks include the armed Hutu militia responsible for tbe Rwanda genocide of 1994.

Aid had to take second place to security, said the rebels, bluntly rejecting pleas for better eccess to the refugee camps. It was a profound shock for the influential agencies, accustomed to being deferred to. "For the first time in their history, the 'humanitarian imperialism' of the UN agencies and the NGOs bas been stopped in its tracks," says Ms Omaar.

"The west no longer has e clear strategy on Africa," argues one of President Museveni's advisers. The combination of the end of the cold war and the continent'a economic marginalisation has led to the disengagement of Washington, London and Paris. The implications are profound, he says, particulerly for francophone Africa.

The regional meeting in Libreville, Gabon, that was staged in the closing days of Mobutu's regime – nicknamed the "dinosaurs' summit" – was a who's who of sclerotic regimes with reason to fear the likes of Mr Kabila. Gabon, Cameroon, Togo and the Central African Republic all have eutocratic leaders heavily dependent on French support – political, military or financial – to rein in their restive populations and stay in the saddle.

For them, France's failure to save Mr Mobutu, coming so soon after the loss of French influence in Rwanda, sounds like the tolling of the bell. For some, soch as Congo (Brazzaville) or the Central African Republic, that abandonment by Paris comes when they are also facing security problems triggered by the Zairean crisis.

The former French Congo, now ruled from Brazzaville, is a tiny nation of 3m people whose government's hold on power is fragile, now risks being destabilised by the influx of Mobutu supporters, Zairean presidential guards and former Rwandan soldiers who crossed the river as Kinshasa fell.

Central Africa is also being flooded by members of the equatorial tribes once loyal to Mr Mobutu, fleeing the edvancing rebels. Just as Rwanda's civil war finally dragged Zaire in its wake, Zaire's uprising could eventually spill over into its northern neighbours.

The rumblings could be felt even further afield. The military regime in Sudan, waging war ageinst southern-based rebels, could be next in line. Uganda, Eritrea and Ethiopia are already backing Mr John Garang'a Sudan People's Liberation Army.

Kenya, for so long Britain's most-favoured ex-colony in Africa, is another wbose government must be looking anxiously over its shoulder. While President Daniel arap Moi is no Mr Mobutu, danger signals include wide-ranging official corruption and high unemployment.

The speed with which Nairobi, which had resolutely snubbed Mr Kabila, rushed to recognise the new regime in Kinshasa indicates the level of nervousness there.

In Zimbabwe, there is growing discontent over increasing corruption and also the heavy-handed methods of President Robert Mugabe, now in his 70s, but sbowing no signs of willingness to band over to a younger generation of politicians.

These countries will be feeling particularly vulnerable as tbey register the advantages Mr Kabila's African allies have accrued as a result of the rebel takeover.

Uganda, Rwanda and Burundi are all beneficiaries of the overthrow they helped initiate, having dispersed the rebel groups that preyed on their borders. In Rwanda, though, that gain is offset by the security problems it has brought within its frontiers, along with hundreds of tbousands of returning refugees.

In Angola, President Dos Santos is already taking advantage of the new dispensation. In the last few days he has ordered government troops into areas held by his old rival, Mr Jonas Savimbi, the Unita leader. Unita has now lost its rear bases in Zaire, which Mr Mobutu bas been providing ever since the Angolan civil war began in the mid-1970s.

Stability in Angola should pave the way for the rehabilitation of the Benguela railway, whicb links the Angolan port of Lobito with copper mines in southern Zaire and northern Zambia.

But this is only a small part of the movement for regional co-operation, embracing central and southern Africa, that a well-run Congo could trigger. One of the first steps the new government is expected to take is to apply for membership of the Southern African Development Community, the 12-country group established in 1980, as well as play a greater role in efforts to increase economic co-operation in east Africa.

Eskom, South Africa's national electricity utility, has already drawn up a blueprint which links all the countries of the region into a network of powerlines reaching as far north as the Inga dam on the Congo river. The plan is to harness the huge hydroelectric potential of the region's rivers, including the Zambezi, to produce some of the cheapest power in the world.

But the critical factor will be the performance of Mr Kabila, already under criticism at home and abroad for his domineering style and treatment of the Rwandan refugees. If he models himself on Mr Museveni, however, building a broad-based political coalition and implementing the reforms that belped Uganda rebuild an economy devastated by war and mismanagement, the great mineral and agricultural potential of the country could be realised. Like Mr Museveni, he is likely to drop the Marxist values that shaped him in the 1960s and come to terms with the market forces that drive today's globalised economy.

This would in turn bring closer Mr Museveni's objective: regional economic integration, whicb he has said "could eventually lead to political union of east and central Africa".

But should Mr Kahila fail, the consequences would be profound. The continued collapse of Congo would deal a devastating blow to hopes for the region. Above all it would demonstrate that, in the search for an African solution to Africa's ills, Mr Museveni and his allies have bitten off more than they can chew.

· O B S E R V E R ·

Trouble brewing

■ Meyer Kahn, just appointed the first civilian boss of South Africa's beleaguered police service, is used to getting his own way. Known to colleagues as "the *boytjie* from Brits" – the boy from Brits, the remote north-western town where his parents settled after emigrating from Lithuania – he loves a good scrap.

He is also fanatical about the job in hand. "Everyone should drink beer," he says, in his role as chairman of South African Breweries, the world's fourth largest. "I even resent the milk on my children'a cornflakes."

His determination will be tested in his new job, and not just because he is the first Jewish head of a force in which anti-Semitism has always been strong. The 57-year-old industrialist will pit his skills against the criminal ayndicates whose grip on the new South Africa rivals Colombia and Russia: Even among the force's elite 1,800-strong VIP protection arm, crime is rampant. Nearly 200 face criminal charges, including murder, rape, kidnapping and armed robbery, and 120 have criminal records.

Kahn's decision stunned his peers in the South African corporate world, though they have long grumbled that the police should be run in a more business-lika manner. He will remain on the board of SAB, and friends say he is likely to donate his police salary to charity. Unlike South Africa's abysmally paid cops, Kahn will not feel the loss of the cash dispenser which was until recently a handy facility on the fourth floor of the grim police headquarters in Pretoria. It was stolen, from right under their noses.

Bank in credit

■ Foreign investors return to Poland's 127-year-old Bank Handlowy today for the first time since the second world war, taking up to 43 per cent of the stock as the bank'a privatisation gets under way. Handlowy is no stranger to close relations with foreign banks – before the war Banca Commerciale Italiana and the defunct British Overseas Bank were both shareholders. After 1945 it specialised in foreign trade transactions and in the 1970s acted as the agent for the government as Poland ran up its $20bn debt.

But there is one foreign bank whicb claims an affectionate place in Handlowy's corporate memory, if banks have such things. It happened during the terrible occupation of Warsaw by the Nazis, who decreed in 1942 that the Polish banking industry would be disbanded: the juicy bits would be merged into German banks, other banks would close.

Accordingly a representative of Deutsche Bank, chosen by the German government to take over Handlowy, arrived in Warsaw – and informed the astounded management that Deutsche did not agree with its government's position. To keep the authorities happy, Deutsche would install an "observer" and this presented "no threat to the Handlowy".

The Handlowy's official history records that tbe observer did indeed do nothing. The bank survived, only to be nationalised under the Soviet-imposed postwar regime.

Film fun

■ Rod Tidwell, the garrulous American footballer played by Cuba Gooding Jr in the film *Jerry Maguire*, didn't know how wrong he was when he employed soma choice Anglo-Saxon terminology about sportswear maker Reebok, and added: "All they do is ignore me."

Reebok was paying enough attention to bring a $120m lawsuit against Tri-Star Pictures, the film's makers, for breach of contract. Reebok says Tidwell was supposed to land e Reebok endorsement contract at the end of the film. The scene was apparently shot, but ended up on the cutting room floor.

By the time Reebok found out, it had already launched a promotion tied to the footballer – a wide receiver, since you ask. It was too late to stop the promotion, says Reebok, although it did drop a television commercial featuring Gooding, who won an Oscar for his performance in the film. The case is coming in August to a courtroom near you, if you happen to live in Los Angeles.

Beating time

■ If everyone et Daimler-Benz is singing the same tune after the upheaval which saw former Mercedes boss Helmut Werner head for the exit and the carmaker fully absorbed into the parent company, they're doing better than the entertainers at the opening of the group'a new factory in Alabama.

The dancers and singers appeared to be having some trouble keeping time to the toe-tapping ditties written for the occasion. Understandably, the authors had mentioned Mercedes quite a lot, but the three-syllable word had to be thrown out and replaced with two-syllable Daimler at the last minute. Hope Mercedes is fitting into the group better than Daimler filled the gaps in the otherwise catchy tunes.

The Financial Times

100 years ago

Discovery Of Petroleum Wells
The Amsterdam Stock Exchange is celebrated chiefly for its remarkable skill in buying American Rails at the top and selling them at the bottom. Apart, however, from this idiosyncrasy, it is a cool, level-headed Bourse, and our Consul informs us that it was not much disturbed in 1896. One disturhing influence, which weakened the desire of the Dutch to purchase their own Consols, was the discovery before the close of the year of petroleum wells on a large scale in Java and Sumatra. The public subscribed eagerly to several enterprises formed for working these wells, but it is too early to say yet whether the public or the petroleum will be exploited.

Dutch Trade Pact
An agreement has been signed between Holland and the Russian zone of Germany for an exchange of goods at the rate of Fls.20,000,000 annually. Dntch imports from the zone will include machinery, potash, timber, paper, glass, pottery and chemicals. Dutch exports thereto will include super-phosphates, fish and rubber.

FINANCIAL TIMES
Monday May 26 1997

SEC considers reform to cover online markets

Plans could encourage exchanges on internet

By John Authers in New York

The Securities and Exchange Commission, the US regulatory anthority, is considering the most sweeping revision in its 63-year history of its powers to regulate the securities markets.

The move is e response to the increasing influence of online trading and alternative exchanges such as Instinet and Bloomberg.

The changes being considered could encourage the formation of stock exchanges on the internet, reduce the regulatory burden on small stock exchanges and allow the natiou's largest stock exchanges more flexibility.

They could also allow foreign stock exchanges to do business in the US, said Mr Richard Lindsey, the SEC's director of market regulation.

Mr Arthur Levitt, commission chairman, said: "We are starting down a road I believe will make us more responsive to markets that have changed more in the past five years than they have since they started in this country."

Alternative exchanges and dealing systems now account for some 20 per cent of transactions in Nasdaq securities and 1.4 per cent of volume on the New York Stock Exchange.

Most of these are regulated in the same way as brokers and dealers by the National Association of Securities Dealers.

The SEC wants to reduce the burden of regulation on alternative exchanges and dealers, by establishing a tiered framework through which small exchanges can progress as they grow larger – with the highest tier currently reserved for established markets. The commission also wishes to start regulating the activities of US companies which offer US investors "entry points" to invest in foreign markets.

The proposals for a three-tier system of regulation could allow small exchanges covered by the lowest tier of supervision to set their own rules.

The commission is looking at a wide range of options for "second-tier" exchanges, which could include exempting them from some regulations imposed on established markets. The SEC is also considering reducing or eliminating requirements on them, while discussing new ways of overseeiug fully-eutometed systems.

A third tier of traditional exchanges registered with the commission would continue to be regulated in the same way.

A European extranet, Page 11
Editorial Comment, Page 15

Outgoing president to retain influence in Iran

By Robin Allen in Tehran

Mr Hashemi Rafsanjani, outgoing president of Iran, yesterday signalled to Mr Mohammad Khatami, surprise winner of last Friday's presidential elections, that he would retain e strong inflnence over the country's leadership.

Mr Khatami, who is seen as a moderate, won 70 per cent of more than 29m votes cast from an electorate of 32m. He defeated his nearest rival and leading candidate Mr Ali Akbar Nateq-Nouri, speaker of the majlis, or parliament, by almost three to one.

Mr Nateq-Nouri had been endorsed by most of the country's top leadership including Ayatollah Khamenei, Iran's spiritual leader, and President Rafsanjani himself.

Mr Rafsanjani, whose second four-year term expires in August, is constitutionally barred from a third term.

At a press conference yesterday, he said he would continue to "assist the cabinet of Mr Khatami" through the powerful Council of Expediency. This body was set up by Iran's *revolutionary guide and mentor*, Ayatollah Ruhollah Khomeini, in the early 1980s to mediate when there was disagreement between the majlis and the keeper of Iran's constitutional virtues, the Council of Guardians.

Iran's president has the number two slot to Ayatollah Khamenei in the constitutional hierarchy of power. The degree of power wielded by the president depends on how well he can manage his way through a maze of checks and balances.

The scale of Mr Khatami's victory, the size of the turnout, and the speed with which Mr Nateq-Nouri accspted defeat surprised both Iranians and foreign analysts. Voters and analysts in Tshran and the provinces had reckoned on neither of the two main candidates gaining an absolute majority.

It was expected that the election would go to a run-off and that Mr Nateq-Nouri would emerge the winner.

More than half of Iran's official 69.9m population is under 30, and the minimum voting age is 15. It was already apparent at the start of the official campaign on May 10 that Mr Khatami, a 54-year-old former minister for Islamic guidance and culture, had a greater appeal among the under-30s who make up some 40 per cent of the population.

Iranian analysts say he mads effective use of the state-controlled television and the press.

Power balance will test Khatami, Page 8

Formula One organisers insist float will go ahead

By John Griffiths in London

Plans for the $3.2bn flotation of Formula One Holdings, the motor racing series controlled by Mr Bernie Ecclestone, were still on track yesterday in spite of a row with leading racing teams over the terms of the float, according to Mr Ecclestone's advisers.

At yesterday's Spanish Grand Prix, Salomon Brothers, the investment bank advising Mr Ecclestone, dismissed the teams' opposition to the float as "internal squabbling". It said threats to pull out of the sport were "hollow".

But one disgruntled team official muttered en route to the Barcelona race track: "Bernie can have all the TV deals he likes, bnt you can't have Formula One without the teams."

Three leading motor racing teams are fighting behind ths scenes for changes in ths terms of the flotation to give themselves a higher share of the revenues from television *rights* and a *bigger stake* in the public company. Other racing teams have also expressed private doubts abont the equity share-out.

The first draft of the prospectus for Formula One Holdings, which includes all the commercial activities controlled by Mr Ecclestone, F1's promoter, is dne to be handed to the London Stock Exchange tomorrow.

Mr Ecclestone's advisers are adamant the flotation of F1 is "on the conveyor belt". They say the final prospsctus will be published towards the end of June, with ths flotation possibly complete by the British Grand Prix on July 13.

The advisers say ths terms of the agreement between the teams and the organisers of F1 over revenues give none of the teams any formal right to even a token equity stake in Formula Ons Holdings.

They suggest that the dissident teams, notably McLaren Tyrell and Williams – whose *top driver Jacques Villeneuve* leads the championship after winning at Barcelona yesterday – might not like it bnt there is little they can do.

"Do you seriously think that Msrcedes-Benz or Renault, who have invested heavan knows how many millions in engines, or sponsors who have paid fortunes for global exposure, are really going to let teams pull out because they have an internal squabble with the promoters over their share of the TV cash? It's a non-starter and they know it," said one flotation insider.

The teams want a bigger equity stake in the floated company than the 1 per cent each allocated in the prospectus.

Analysts also are awaiting clarification in the prospectus of the division of revenues.

Digital pay-per-view TV could boost F1's turnover from last year's $320m to over $1bn, which is why the float is valued at about $3.2bn.

Brewery chairman to head SA police

Continued from Page 1

policy. A leading member of the South Africa Foundation, a lobby group representing big business, he led calls for more rapid liberalisation of the economy and urged drastic measures to restore law and order.

Big business yesterday applauded his appointment. The son of Lithuanian emigrants, Mr Kahn was born in Brits, a provincial town in the north-west. His hands-on management style and frank way of speaking have earned him the nickname "the *boytjie* [boy] from Brits" among colleagues. "He's the right guy to knock out the criminals," said Dr Nthato Motlana, chairman of New Africa Investments, the country's biggest black-owned company.

Mr Mbeki said the appointment would enable Mr George Fivaz, national police commissioner, to concentrate on tackling crime. He has previously opposed private sector involvement in managing the police. Overall responsibility for administrative duties will pass to Mr Kahn.

Mr Kahn will inherit an organisation in disarray. In a recent internal survey commissioned by Mr Fivaz, 69 per cent of officers said police management had "no clue" about conditions on the ground.

FT WEATHER GUIDE

Europe today

A large area of western and central Europe will be sunny and dry with temperatures below 20C except in France and the southern UK.

Cloud will move in from the north-west, bringing rain to Norway and Denmark. Some rain is likely in the north-western UK as well.

The rain will move into northern Germany during the evening.

Rain, heavy at times with occasional thunder, is expected over southern Yugoslavia.

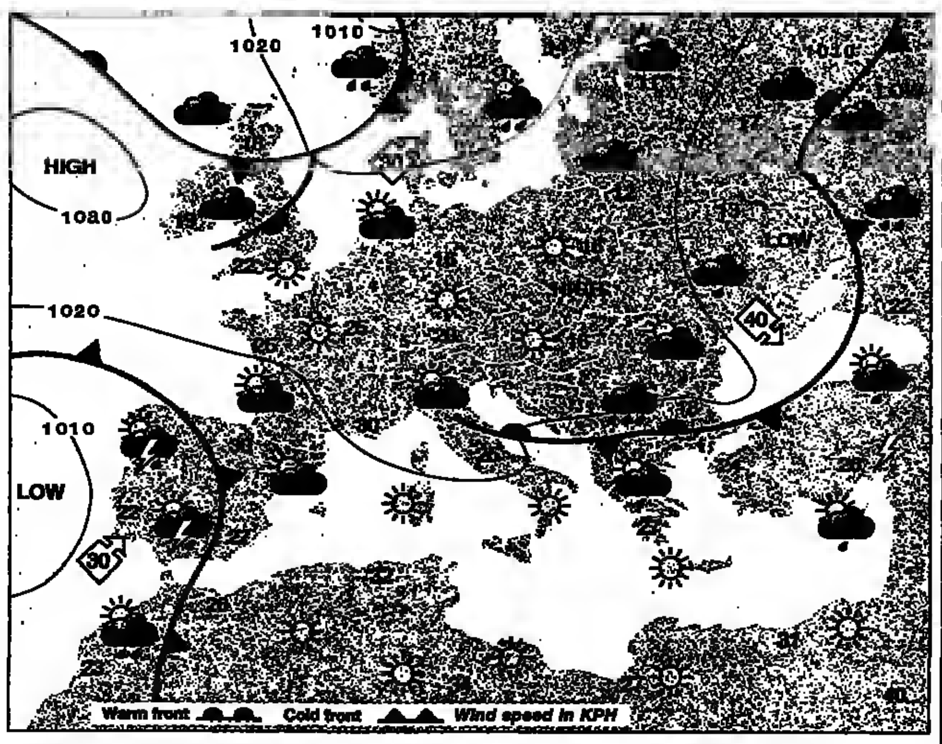
Bulgaria will be showery. Heavy rain and strong winds are expected across eastern Ukraine. Portugal and interior parts of Spain will have showers, some thundery. Greece and Italy will be sunny.

Five-day forecast

Cool air will again enter central Europe with rain and heavy showers. France will stay dry and sunny. The UK will become sunny.

Thunder showers will continue over Spain.

The Balkan states will have heavy rain after Tuesday's sunshine.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 26	Caracas	fair 31	Faro	shower 20	Madrid	thund 26	Rangoon	shower 32
	Celsius	Belfast	cloudy 19	Cardiff	sun 20	Frankfurt	fair 22	Majorca	sun 29	Reykjavik	fair 11
Abu Dhabi	sun 40	Belgrade	shower 17	Casablanca	fair 24	Geneva	sun 26	Malta	sun 27	Rio	shower 22
Accra	fair 31	Berlin	fair 17	Chicago	sun 18	Gibraltar	fair 24	Manchester	fair 18	Rome	sun 25
Algiers	sun 31	Bermuda	fair 23	Cologne	sun 20	Glasgow	cloudy 18	Manila	shower 33	S. Frsco	fair 22
Amsterdam	fair 17	Bogota	thund 19	Dakar	fair 27	Hamburg	cloudy 15	Melbourne	shower 18	Seoul	fair 24
Athens	sun 28	Bombay	fair 33	Dallas	sun 35	Helsinki	fair 14	Mexico City	shower 26	Singapore	fair 33
Atlanta	fair 28	Brussels	sun 20	Delhi	sun 41	Hong Kong	fair 29	Miami	fair 31	Stockholm	shower 15
B. Aires	fair 14	Budapest	fair 17	Dubai	sun 40	Honolulu	fair 29	Milan	sun 23	Strasbourg	sun 23
B.ham	sun 21	C.hagen	rain 13	Dublin	fair 20	Istanbul	fair 20	Montreal	fair 16	Sydney	fair 21
Bangkok	shower 37	Cairo	sun 33	Dubrovnik	thund 23	Jakarta	fair 32	Moscow	cloudy 13	Tangier	fair 24
Barcelona	sun 24	Cape Town	fair 19	Edinburgh	cloudy 18	Jersey	sun 18	Munich	sun 21	Tel Aviv	sun 27
						Karachi	fair 34	Nairobi	fair 24	Tokyo	shower 19
						Kuwait	sun 41	Naples	sun 26	Toronto	fair 17
						L. Angeles	fair 24	Nassau	shower 30	Vancouver	fair 18
						Las Palmas	fair 23	New York	fair 21	Venice	sun 22
						Lima	fair 26	Nice	sun 25	Vienna	fair 18
						Lisbon	shower 24	Nicosia	fair 31	Warsaw	fair 15
						London	sun 23	Oslo	rain 10	Washington	thund 23
						Lux.bourg	sun 21	Paris	sun 25	Wellington	cloudy 14
						Lyon	sun 27	Perth	shower 19	Winnipeg	fair 18
						Madeira	fair 21	Prague	sun 18	Zurich	sun 20

THE LEX COLUMN

Media machinations

Mr Silvio Berlusconi has had a whirlwind career in Italian politics, but the turbulence appears to be paying off. Last week's agreement on a regulatory authority to cover telecoms and media got only a grudging welcome from Mr Berlusconi's Mediaset, but it looks like a resounding victory. The agreement legitimises his business position. It allows Mediaset to keep three channels at least until next April and probably for much longer – he was supposed to dispose of one last August. And the company can now build a digital TV platform and bid for the third mobile phone licence.

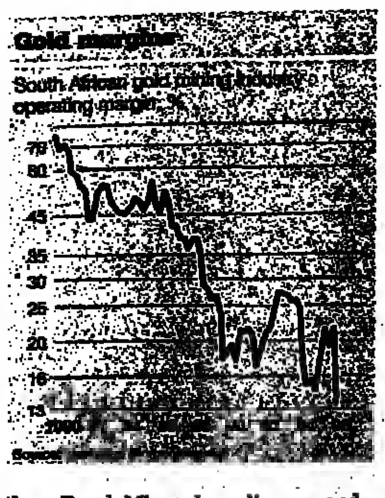
That is not to say that Mr Berlusconi should retire from politics just yet. The law is not yet passed, the regulator has not yet bean appointed – and the regulator could make Mediaset's life tough. There are subjective judgments to be made on whether there is enough of a satellite audience in Italy to force Mediaset to turn the Retequattro channel into e satellite channel. Other issues to be addressed include the level of advertising saturation on Italian channels, which is one of the highest in Europe. And once the current TV structure is formalised, the government could consider charging users for spectrum – and the treasury needs all the revenues it can get to meet the *Maastricht* convergence criteria.

The share price reaction looked a little frugal. But given the opacity of the company, its regulatory uncertainties and legal difficulties *facing many of its directors, it is* still hard to see it as a compelling long-term investment.

South African mining

Mr Cyril Ramaphosa, one-time radical black politician and miners' union leader, is very much flavour of the moment in corporate South Africa. Not only is he preparing to take control of Gold Fields, ths mining house founded by Cecil John Rhodes. Yesterday he was named acting chairman of South African Breweries for the next two years, while Mr Meyer Kahn, the present incumbent, tries to sort out the South African police force.

Certainly, these are revolutionary times in South African mining. But it is not so much the start of the revolution as its maturation. The roots are found earlier in the decade, when six mining houses – Anglo American, JCI, Anglovaal, Gold Fields, Rand Mines and Gencor – dominated the scene. Since then Rand Mines has disappeared, insurance company Sanlam has released its hold on Gencor, and Anglo has let go of JCI.



For all South Africa's high-octane politics, the change has been driven by economics. Rising costs and a stagnant price have driven operating margins in the gold industry down to the low teens from 40 to 50 per cent a decade ago. With swathes of capacity unprofitable at this level, minds have been wonderfully concentrated. The outcome has been a ferment of innovation, from mineral swaps, to restructurings, to novel productivity arrangements.

With Mr Ramaphosa standing on the threshold of *Gold Fields, and* JCI under Mr Mzi Khumalo, the focus has shifted to black empowerment. It has been accelerated by the pancity of white talent. Had Gold *Fields and* JCI *had stronger man*agements, Mr Khumalo and Mr Ramaphosa would have faced tougher battles for control.

Neither the mooted tie-np between JCI and Lonrho, nor Mr Ramaphosa's eccession to Gold Fields, are *faits accomplis*. But both are likely. Competing bidders could yet force Mr Ramaphosa to pay more for his Gold Fields stake than he would like, bnt the desire of Rembrandt, the controlling shareholder, for a black empowerment deal is unlikely to be thwarted. As for JCI/Lonrho, a tussle about valuation is certainly on the cards, but there is a coincidence of interest which is likely to see the deal done.

At one level, these deals are no more than a swapping of management roles and assets among locals. But this would be to underestimate their significance. Mr Ramaphosa and Mr Khumalo both face a heavy burden of expectation. If they are unable to effect a revolution in productivity, the outlook for the South African industry is grim indeed. If they succeed, investors could profit handsomely.

Whatever happens on the mining front, the real prizes in Sonth Africa's corporate restructuring lie on the industrial side. Within companies such as Amic, South African Breweries and Rembrandt, huge pools of value are waiting to be unlocked. It is a matter of when rather than if this process starts. The changes under way in the mining sector will certainly spread wider – the recent unbundling of Malbak being an example of what lies ahead.

The big catalyst for change, of course, will be the abolition of exchange controls. When that arrives, structures which make tenuous sense now will cease to have any relevance.

Japanese equities

Japan's corporate results season is throwing up some pleasant surprises. Recurring profits from the nearly 700 companies that have reported so far have risen by 17 per cent, against forecasts of a 10 per cent increase. That has helped the Nikkei 225 index creep hack up above 20,000, a jump of 14 per cent in less than two months.

Investors should remember, however, that this is still a two-tier economy. The export-oriented "nifty" stocks, boosted by yen weakness, are declaring record numbers. Toyota's operating profits nearly doubled while Matsushita's pre-tax earnings more than quadrupled. More domestic manufacturers, meanwhile, are benefiting from cost reductions. Japan's top five steel companies cut Y220bn $1.9bn off their combined costs last year, helping them overcome weaker prices. Bnt everage profits among non-manufacturers actually fell 4 per cent, even ignoring financials, many of whom are still reporting losses.

With the yen starting to strengthen against the dollar, Japan's exporters will find the going more difficult this year. And while April's tax rises do not seem to have thrown the domestic economy back into recession, growth is still expected to slow from 3 per cent to perhaps 1.7 per cent in 1997/98. As a result, average profit growth will slow to less than 10 per cent this year. That suggests that on 45 times prospective earnings, the Nikkei's progress will be more sedate from here.

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Week 22

IN BRIEF

Gremlin plans to raise up to $81m

Gremlin Interactive, one of Europe's leading publishers of video and computer games, is planning a £45m-£50m ($73m-$81m) flotation to fund acquisitions and new product development in the entertainment software industry. The company, which publishes titles such as *Zool* and *Realms of the Haunting*, aims to use funds from the placing to win a greater share of the international games market – worth an estimated $6.4bn a year. Page 18

Paribas restructures in Belgium
Paribas, the French financial group, has announced a turning point in its Belgian operations with the sala of its retail banking activities and a restructuring of other businesses. Paribas wants to focus on two core businesses – international investment banking and specialist financial services. Page 18

Ukraine moves to allay investors' fears
Ukraine has reassured foreign investors attracted to the country's fledgling Treasury bill market by vowing to keep its currency – the hryvnia – within a corridor of 1.7 to 1.9 against the dollar. Interest in the market was heightened when Kiev announced the corridor earlier this year, but some buyers fear the band may not come into force until after the passage of the 1997 budget by parliament. Page 22

Cellular phones lift NTT
A strong contribution from cellular phone subsidiaries helped NTT, Japan's dominant telecoms carrier, lift sales and profits for the third year running. The telecom group's sales in the year to March rose 2 per cent to Y8,821.8bn ($76bn) and pre-tax profits gained 5 per cent to Y444.6bn. Page 18

Commerzbank boosts equities business
Commerzbank of Germany is building up its investment banking operations by boosting its international equities business and planning a new trading floor in Frankfurt. It has hired Mr Mehmet Dalman, former head of Deutsche Morgan Grenfell's equities operations in Tokyo, to lead its global equities operations. Page 18

Italy to retain 51% of Eni
The Italian Treasury will keep its stake in Eni, the oil, gas and petrochemicals group, above 51 per cent when it sells a third tranche of shares next month. The decision allows the centre-left Prodi government to head off political pressure to retain control of this strategic asset, which is the seventh-biggest publicly traded oil company in the world and the largest by market capitalisation in Italy. Page 18

Serbian bank plans $50m placement
Serbia's state-owned Beogradska Banka plans to raise up to $50m through a private placement with a London-based bank, the first such loan since sanctions against Belgrade were lifted last year. Beogradska said the six-month loan carried a monthly interest rate of about 3 per cent, reflecting Serbia's high-risk status. Page 18

Mazda depressed by competition
Mazda, the Japanese carmaker which is 33.3 per cent owned by Ford, forecast a return to operating profit in the current year, despite a decline in sales and another operating loss in the year to end-March, amid competition in Japan. Mazda said cost cutting and sales of new models would help it return to profit this year for the first time in five years. Page 18

PepsiCo to sell distribution unit
PepsiCo, the US drinks and snacks group, is to sell PFS, its restaurant supply distribution unit to AmeriServe Food Distribution, a subsidiary of Holberg Industries, on undisclosed terms. The combination of AmeriServe and PFS would create the largest food service systems distributor in the US, with more than 5,000 employees and 1997 sales expected to exceed $5.4bn. Page 18

Elf in FFr1.2bn share buy-back
Elf, the French oil group, has paid FFr1.2bn ($210m) to buy back 0.7 per cent of its own shares from Axa-UAP, the insurance group, in a further move towards the restructuring of the country's large corporate shareholdings. The move on Friday came the day after Renault, the car manufacturer, sold its 0.9 per cent stake in Elf back to the company for FFr1.5bn. Page 18

Dresdner Bank profit up 10%
Dresdner Bank, Germany's second-biggest bank, turned in a lower first-quarter profit increase than its two main rivals, but said this reflected the comparison with a buoyant start to last year. Operating profits before risk provisions rose 10 per cent to DM991m ($586m). Page 18

Companies in this issue

Citicorp to set up fund team

Bank hires high-flyer and rejects plans to purchase fund business

By John Authers in New York

Citicorp has abandoned plans to buy a fund management business and decided to build its own.

The US bank has recruited Mr Peter Carman, former head of equities at Boston-based Putnam Investments, to be its new chief investment officer, in the hope that he will attract other high-powered money managers.

Putnam has been one of the increasingly significant figures in the US mutual fund market in the past few years. Mr Carman has been its chief of equity investments since 1993.

Mr John Reed, Citicorp's chief executive, said the appointment was "part of an expanded commitment on our part to build an absolutaly first-class investment management competence completely within the company".

When speaking to analysts this year, Mr Reed had said Citicorp, which already manages almost $120bn in assets, was interested in buying a fund manager to help boost its portfolio of retirement savings products. This would have followed the trend set by several other US commercial banks in the past few years and helped it to participate fully in the currently booming US mutual fund market.

Putnam sold more mutual funds through intermediaries than any other company last year. Its overall sales came second only to Vanguard, a direct marketer, and were ahead of its Boston rival Fidelity Investments, a long-time leader of the industry.


John Reed, Citicorp chief executive, embracing the development of a home-grown fund management business Picture: Helayne Seidman

Under Mr Carman and others, Putnam has championed the "team" investment style, with stocks screaned using quantitative techniques, and final investment decisions being taken by groups of fund managers.

This method was a strong departure from the traditional system of giving autonomy to individual fund managers, but made it popular with pension fund managers, brokers and dealers.

Mr Reed seems to have decided to adopt Putnam's approach throughout Citicorp's investment management business.

He said: "We look to Peter to draw on his experiance in building and shaping a team-oriented investment process, where portfolio managers are complemented by a state-of-the-art research capability that includes both strong fundamental analysis and rigorous quantitative techniques."

Putnam announced that Mr Carman would be replaced by Mr Tim Ferguson, a former chief executive of County NatWest Securities and HSBC Asset Management in London, who joined the company last year.

Serbian banks join forces to solve debt problems

By Guy Dinmore in Belgrade

Serbia is to try to restructure its ailing banking system with the formation of a new banking group.

The state-owned Beogradska Banka has announced the formation of a group of at least 20 banks to be called the Beogradska Banka Group. It is hoped the new group will restore confidence in the country's banking system and attract foreign capital.

The group plans to centralise international payment and credit operations. It will set up a rehabilitation agency to tackle repayment of its combined debts, which Mrs Borka Vucic, acting managing director of Beogradska, has estimated at $3.5bn.

Mrs Vucic said part of the debt could be repaid through debt-for-equity swaps, in which three large international banks had shown interest.

The newly formed group will also try to collect more than $1bn owed to Yugoslavia by countries such as Libya and Iraq.

"With a reduced capital outflow, collected claims and fresh external capital, we can put an end to 15 years of net capital outflow and ensure growth," Mrs Vucic said.

Mr Mirko Marjanovic, prime minister, said he was confident that the strengthened Beogradska group could resolve the restructuring of Serbia's debts.

Mrs Vucic, a confidante of President Slobodan Milosevic, said Serbia needed foreign banks to help restore confidence in tha banking system and lure an estimated $2bn "from under mattresses and out of safes" back into the banks.

Sha said the formation of the new group was a step towards privatisation of Yugoslavia's banks.

However, political commentators doubt whether Mr Milosevic's ruling Socialist party has a real commitment towards privatising its banks. They noted that directors of Beobanka, Yugoslavia's biggest commercial bank, had so far refused to join the new group. Beobanka is dominated by the hardline Yugoslav United Left allied to Mr Milosevic.

Bank to borrow in UK, Page 18

Value of Poland's Bank Handlowy may reach $1bn when sale starts today

Price aims to draw domestic and institutional investors

By Christopher Bobinski in Warsaw

Bank Handlowy (BH), one of Poland's largest banks, could be valued at up to $1bn when it goes on sale today in central Europe's biggest privatisation of a financial institution.

The share price of between 28 zlotys and 35 zlotys aims to attract domestic as well as institutional investors, and gives Bank Handlowy a price-earnings ratio slightly below the current average for financial institutions on the Warsaw Stock Exchange.

In tandem with the government, BH is putting the finishing touches to letters of intent with three foreign core investors, including J.P. Morgan, the US investment bank, which is being offered a stake of about 10 per ceot. BH hopes this week to reveal the composition of the group, which is expected to includa an insurer and a retail bank, during presentations to foreign investors. The core group is to retain its stock for at least three years.

BH was nationalised after the war and given sole responsibility for foreign trade transactions. After the 1989 market reforms, it moved into corporate lending, where it now has 9 per cent of the market, and built a successful investment banking operation. The bank, whose net profit reached 530m zlotys ($168m) last year, still retains 27 per cent of Poland's trade finance-related operations. Assets of 14.7bn zlotys represent 12 per cent of the country's banking system.

The final price of the bank will be announced on June 17, with the allocation of the 61.8m shares on offer planned for June 21. Domestic retail investors will get priority in the allocation and the bank hopes to attract between 200,000 and 300,000 through a widespread media campaign. Domestic investors who sign up for shares early will also be given a 5 per cent discount. Foreign institutions, whose demand will play the key role in fixing the bank's price, could be left with just 15 per cent of the bank worth a maximum of $150m should the offer sell well at home.

BH's strategy includes a possible move into retail banking to give the bank access to low-cost household deposits. According to Mr Cezary Stypulkowski, the chairman, plans depend on the three core investors, whose expertise and financial support will be used to develop BH's corporate culture. BH also sets great store by having a big group of domestic investors, who are being given incentives to keep their stock for a year, enabling BH to retain its national character.

Observer, Page 15

Generators plug in abroad

By Simon Holberton in London

With their home market under the watchful and suspicious gaze of the electricity regulator, Professor Stephen Littlechild, the UK's two big generators have had little choice but to invest abroad.

But necessity has turned into enthusiasm as National Power, the UK's largest generator, and PowerGen, its smaller rival, have taken advantage of growing opportunities in Asia, Australia, Europe and the US.

National Power has now spent nearly £1bn ($1.63bn) in equity in foreign power ventures, two-thirds of which was invested last year alona; PowerGen is not far behind with planned equity investment abroad of about £700m.

"Within five years the total output from international projects where we have significant interests will approach the same level as current generation from our UK plants," said Mr Deryk King, PowerGen group managing director.

PowerGen's UK power stations generated nearly 62TWh of electricity last year. By 2002 the company expects output from current international projects to be 46TWh.

But foreign ventures have the capacity to surprise. National Power's annual results last week were overshadowed by reports that the Pakistan government wanted to renegotiate a 30-year purchasing agreement with the 1,292MW Hub power station, in which the UK generator has a 25.7 per cent interest.

The threat was dispelled but the question of how well qualified the UK generators are to compete abroad remained.

Only recently National Grid Group, ownar of the high-voltage transmission system in England and Wales, was left looking foolish after it had to pull out of two international transactions in a week. National Grid faces no competition in its core business, while the generators operate in probably the most competitive electricity market in the world.

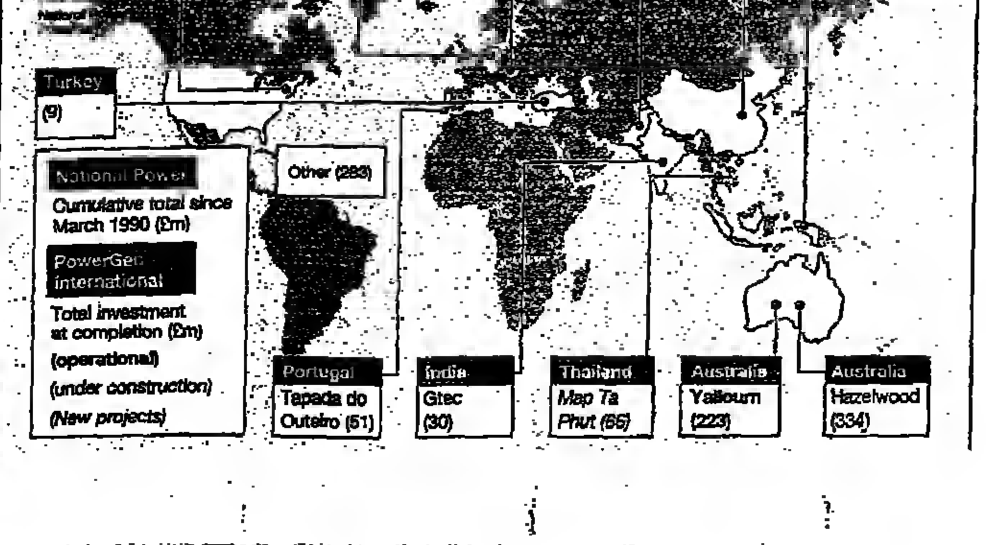
"International diversification represents a sensible use of the generators' skills," says one analyst. "It is not something their existing investors could easily do themselves."

But doubts linger as to whether the returns on investment will be as big as promised. National Power said last week it expected its foreign operations to produce after-tax profits of £145m in 1997-98.

PowerGen said it expected existing foreign operations to produce operating profits of about £100m by 2001. The deals in Indonesia and Thailand announced last week would "reinforce earnings growth beyond 2001", it said.

But last week's results from PowerGen showed only £12m of overseas profits, and £8m of that was from an asset sale.

Electric foreign investment



Gremlin to fund expansion with float

By Tim Burt

Gremlin Interactive, one of Europe's leading pnblishers of video and compnter games, is planning a £45m-£50m ($73m-$81m) flotation to fund acquisitions and product development in the fast-growing entertainment software industry.

The company, which publishes titles snch as *Zool* and *Realms of the Haunting*, aims to use the £10m-£12m raised by the placing to win a greater share of tbe international games market – worth an estimated $6.4bn a year.

Mr Ian Stewart, who invested £1,000 to co-found the company 13 years ago, said the market was growing at 25-30 per cent a year and faster still in ths emerging economies of south-east Asia and China.

"Despite the growth, the software publishers are consolidating and we want to take advantage of tbe acquisition opportunities that presents," be said.

In the past year, Gremlin has acquired smaller UK rivals DMA Deeign and Imagitec for undisclosed sums.

Mr Stewart, chairman, said it was seeking further similar candidates for takeover.

The company also plans to more than double the output of new titles from seven to 15 a year.

In the meantime, Mr Stewart and Ms Jenny Richards-Stewart, his wife, wbo will be joint chief executives of the quoted company, together expect to make £4m-£6m by selling part of their controlling stake.

Ms Richards-Stewart said they would retain about 40 per cent of the company.

"We bad approaches about a trade sale and several venture capital proposals, but decided coming to the market was the best option," she said.

Funsoft Holdings, the German games distributor which acquired 25 per cent of Gremlin in 1995, will hold a 10-15 per cent stake after the flotation.

Operating profits at Gremlin rose from £1.13m to £2.81m while sales increased from £7.54m to £11.3m in the year to July 31.

At the pre-tax level, profits last year rose from £839,000 to £2.87m. In the nine months to April 30 this year, the company made pre-tax profits of £3m on sales of about £12m.

Mr Stewart said tbe improvement had partly been fuelled by demand for games such as *Actua Soccer*, the interactive football game, following last year's European foothall championships.

The placing, handled by Beeson Gregory, is expected to bs completed early in the summer.

Paribas disposal in wider Belgian shake-up

By Andrew Jack in Paris

Parihas, tbe French financial gronp, has announced a significant turning point in its operations in Belgium, with the sale of its retail hanking activities and a restructuring of its other businesses.

It will sell a controlling stake in Paribas Belgique, its retail banking arm, for an undisclosed amount to Groupe Bacob-Arco, fundamentally modifying its Belgian presence, which dates from 1822.

It is also reorganising the ownership and portfolio of Gevaert, an investment company with stakes in Aegon, Almanij and Hapag-Lloyd, in which Parihas' subsidiary Cobepa holds a majority stake, and Almanij-Kredietbank Gronpe a minority share.

Parihas said the action was part of its strategy to focus on two core businesses – international investment banking and specialist financial services – and reflected realignments in the preparations for the creation of the single European currency.

Paribas will sell a 47 per cent stake in Paribas Belgiqus – in which it owns 77 per cent – to Bacob-Arco, which will in torn launch a tender offer to minority sbareholders, bringing its stake up to 70 per cent.

In a second step, Paribas said its remaining 30 per cent stake "could be" sold to the Belgian group, the banking snbsidiary of whicb trades under tbs name Banqne Bacob.

Individuals close to the negotiations said that the 47 per cent stake would be worth "several billion" and would certainly genarate more than the sale this year of Crédit du Nord, Paribas' French retail banking snbsidiary, to Société Générale for FFr2.2bn ($370m).

The deal will leave Paribas with a banking branch which will retain the Parihas name bnt will largely deal with its investment banking activities.

It will co-operate with Bacob over the distribution of financial service prodncts.

In a separate transaction, Cobepa, which is a 65 per cent subsidiary of Paribas, is to absorb half the assets controlled hy Gevaert and manage them directly. The remainder will be transferred to a new quoted company.

Shareholders of Gevaert will be asked at an extraordinary meeting to approve a special dividend of BFr150 a share, after which the net asset value of the group is estimated at BFr73bn ($2.09bn).

The deal will allow minority investors to exchange their existing Gevaert shares for holdings in either Cobepa or Almanij.

Pete Postlewaite, Stephen Baldwin and Gabriel Byrne (left to right) in 'The Usual Suspects', which was produced by Mr Robert Jones

PolyGram, the Dutch entertainment group, has clinched a three-year first-look deal with Mr Robert Jones, the film prodneer behind tha thriller, *The Usual Suspects*, writes Alice Rawsthorn. The agreement gives PolyGram pre-emptive rights over all the pictures developed by The Jonescompany, Mr Jones's film production business. It forms part of PolyGram's efforts to increase its film-making capacity in ths approach to the launch of its US distribution network later this year. The Dutch group, still struggling to bring its film subsidiary into the black despite successes such as *Fargo* and *Trainspotting*, recently concluded a similar deal with Mr Alan Parker, director of *Evita*.

Expansion at Commerzbank

By Graham Bowley in Frankfurt

Commerzbank of Germany is building up its investment banking operations by hoosting its international equities side and planning a new trading floor in Frankfurt.

It has hired Mr Mehmet Dalman, former bead of Deutsche Morgan Grenfell's equities operations in Tokyo, to lead its global equities operations from Frankfurt, including sales, trading and research.

Mr Dalman "has a brief to hire more staff, although he does not have a blank cheque", Commerzbank said.

Ths move follows strong growth in the bank's global bond activities and in derivatives. It has made inroads into eastern Europe, including the Czech Republic and Poland, which the enlarged investment banking group would support.

The expansion reflects the group's strategy of building its operations from within rather than through acquisitions, sncb as Dentscbe Bank's acquisition of Morgan Grenfell.

Commerzbank denied reports that it had been looking at buying BZW, the investment banking arm of Barclays. "We have always said we would grow organically," it said.

The movs to boost the investment banking arm comes amid competition among German banks to capture new business in the former communist countries of eastern Europe. Several have opened subsidiaries or representative offices for commercial banking, but they now intend to build up investment hanking in tha region quickly.

Deutsche Bank plans to open its first representative office in Zagreb, Croatia, next week.

Commerzbank's new trading floor, which is intended to bouse about 500 traders, would bring together all the bank's trading, inclnding both equities and bonds. Building is scheduled to start this year, with the opening planned for 2000.

Mr Martin Kohlhausen, the bank chairman, has stressed in the past that the bank's strategy is to expand in London, New York and Singapore. It has already shifted a lot of its trading in bonds denominated in currencies other than the D-Mark to London.

But yesterday the bank said its "centre of competence is still in Frankfurt, even though there is a lot of know-how in London".

Mr Dalman will be responsible to Mr Klaus Patig, a board member in charge of investment banking, including equities and bonds.

Commerzbank has built a new headquarters in Frankfurt. The building, which it claims is Europe's tallest and which dominates the skyline, is due to open soon.

Cellular phone side aids NTT advance

By Michiyo Nakamoto in Tokyo

A strong contribution from cellular pbone snbsidiaries helped NTT, Japan's dominant telecoms carrier, lift sales and profits for the third year running.

Ths telecom group's sales in the year to March rose 2 per cent from Y7,908.6bn to Y8,821.8bn ($76bn) and pre-tax profits rose 5 per cent from Y423.6bn to Y444.6bn. Net profits, bowever, fell from Y213.2bn to Y149.8bn.

NTT attributed its better performance largely to the contribution from NTT DoCoMo, its cellular phone subsidiary whicb is to be listed next year. DoCoMo bas seen sales and profits rise stroogly on surging demand for cellular phones. Consolidated sales rose 56 per cent to a record Y1,962.9bn while recurring profits increased 74 per cent to Y133.3bn.

The contribution from DoCoMo more than made up for the loss from personal handyphones or PHS – a mobile phone cheaper than cellular phones. NTT's PHS subsidiaries collectively reported a loss of Y90.7bn, largely on bigh capital spending costs.

NTT's mainline telephone business suffered from tariff reductions, particularly in the long-distance market where it cut tariffs in February and introduced discount rates for a variety of services. The impact of the tariff reductions and discounts came to Y67bn.

However, huoyant demand for on-line communications gave a strong boost to NTT's ISDN services, which offer advanced communications links.

NTT does not expect its core telecoms husiness to lift results in tha current year, although ISDN and multimedia related husinesses will increase revenues. A strong rise is forecast in group sales, to Y9,444bn, as well as in profits, to Y519bn, and net profits, to Y220bn. But these are largely attributed to continuing growth at NTT DoCoMo along with higher revenues and smaller losses at the PHS subsidiaries.

NTT DoCoMo is forecasting recurring profits in the current year of Y182bn.

● International Telecommnnicationa Japan, the international carrier whicb is to merge with Japan Telecom, reported a drop in recurring profits despite higber revenues, becanse of high depreciation charges and lower tariffs.

It saw sales rise 47 per cent from Y48.4bn to Y70.9bn, largely on a change in accounting. Recurring profits, bowever, fell 88 per cent. Net profit plunged from Y3.8bn to Y221m.

State to retain 51% of Eni

By Robert Graham in Rome

The Italian Treasury will keep its stake in Eni, the oil, gas and patrochemicals gronp, above 51 per cent when it sells a third tranche of shares next month.

The decision allows the centre-left Prodi government to head off political pressure to retain control of this strategic asset, which is the seventh-biggest publicly traded oil company in tbe world and the largest by market capitalisation in Italy.

However, officials insist an offering of more than 20 per cent was never seriously considered.

Ths offer size is not scheduled to be announced until June 7, with the book-building exercise beginning on June 9 and the close of the offer on June 27.

At present the treasury holds 69 per cent of Eni following two previous sales beginning in 1995. The last offering in 1996 totalled 16 per cent after the "greenshoe" option had been exercised, raising L8,900hn ($5.34bn). The first tranche raised L6,300bn.

The main difference in the company since the first two tranches has been Eni's decision in April to incorporate Agip, its principal operating company responsible for oil and gas exploration and production.

Also this month Eni initiated an important potential diversification by signing a memorandum of understanding with Enel, the state-owned electricity company, to study a joint venture for electricity generation.

The treasury has announced it will once again he exercising the "greenshce" option to offer extra shares if tbere is demand, and will also encourage investors witb a 1-for10 bonus for those holding their shares for a year.

The global co-ordinator for the third phase of privatisation is Credit Suisse First Boston. The price ceiling will be fixed on June 21.

Last time, a 3.5 per cent discount was given on the retail price offer, and with Eni shares now trading at close to L9,000 tbere has been a 30 per cent gain. In the case of the first tranche price, the gain has been 70 per cent.

Serbia bank to borrow in UK

By Guy Dinmore in Belgrade

Sarbia's state-owned Beogradska Banka said yesterday it planned to raise up to $50m through a private placement with a London-hased bank, the first such loan since international sanctions against Belgrade were lifted last year.

Mrs Borka Vucic, acting managing director of Beogradska, said the six-month loan carried a monthly interest rate of aboot 3 per cent, reflecting Serbia's high-risk status. It would be converted into dinars to help local companies finance production for exports.

Belgrade newspapers said the credit would come from ANZ bank. Mrs Vucic declined to name the bank involved until details of the loan were made public, possibly within a week.

Foreign hanks have largely shunned Belgrade since the imposition of international sanctions against the former Yugoslavia in 1991. The European Union and US are blocking IMF membership for Yugoslavia, which now comprises Serbia and Montenegro, until political conditions are met.

One western banker said he doubted Serbia would be able to raise substantial amounts of funds ahroad until its IMF memhership was resolved.

A Serhiao analyst described the high rate negotiated with the foreign bank as "catastrophic". Serbia is running a large foreign trade deficit and has all hut exhausted its foreign exchange reserves. "We must find credits to finance exports. We need short-term money," Mrs Vucic said.

Mazda depressed by competition

By Michiyo Nakamoto

Mazda, the Japanese carmaker which is 33.3 per cent owned by Ford, forecast a return to operating profit in the current year, despite a decline in sales and another operating loss in the year to end-Marcb, amid competition in Japan.

Mazda said cost cutting and sales of new models would belp it return to operating profit this year for the first time in five years, on sales higber for the first time in six years.

In a bid to regain lost ground and complement its product line, ths company plans to almost double capital investment this year to Y420bn ($3.64bn), while research and development and sales costs will rise from Y588bn to Y750bn.

In the year to end-March, bowever, Mazda continued to suffer from a lack of models suited to the Japanese's changing tastes and reported a non-consolidated operating loss of Y53bn – smaller than the Y126bn operating loss last time.

Sales declined slightly to Y14,268bn, but recurring profits rose from Y12bn to Y139bn, largely as a result of asset sales. Net profits rose from Y394m to Y6.2bn.

Mazda expects to make a consobdated net loss, in part due to the larger share of the loss at AutoAlliance that Mazda will bear as a result of having increased its stake in its US manufacturing joint venture with Ford.

"We're not where we'd thought we'd be in sales," admitted Mr Gary Hexter, senior managing director. Although the Demio, Mazda's small, recreational car, has been selling very well, the sluggish performance of its saloons depressed sales in Japan.

Exports rose 6 per cent in value terms. As Mazda's export sales are yen-denominated, its gains from the yen's weakness were not that pronounced.

Cost reductions contributed Y370bn and are expected to add another boost of Y400bn this year. Debts have fallen from a peak of more than Y580bn to less than Y400bn.

Meanwhile, Mazda bopes that a range of models to be introduced and a full-year contribution from the popular Demio will help it increase domestic sales and achieve an operating profit this year. The company is on track to make operating profits in the first balf, whicb would be a breakthrough, Mr Hexter said.

Exports will increase in the current year, mainly to Europe, wbere tbe introduction of a remodelled 626 saloon is expected to boost sales. Mazda expects exports to rise 10 per cent in the year. This will help parent sales increase 11 per cent to a forecasted Y15,800bn.

INTERNATIONAL NEWS DIGEST

Axa-UAP reduces Elf, BNP stakes

Axa-UAP, the French insurer which formally merged into a single group this month, has sold significant stakes in both Elf Aquitaine, the oil group, and Banque Nationale de Paris, the banking group. The action comes as part of its policy to reduce a number of its large equity investments following the merger, and at a time of a broader restructuring of French capitalism.

Elf paid FFr1.2bn ($210m) to buy back 0.7 per cent of its own shares from Axa-UAP on Thursday, leaving the insurer with 6.2m shares in the group, which represents 3.4 per cent of the capital and 5.5 per cent of the voting rights.

The transaction came the day after Renault, the car manufacturer, sold its 0.9 per cent stake in Elf back to the company for FFr1.5bn, bringing to an end its participation as part of a group of core investors in Elf at the time of its privatisation in 1994. Elf now holds more than 6 per cent of its own shares.

Separately, Axa-UAP said late on Friday night that it had sold 5m shares in BNP, cutting its stake to 9.5 per cent and weakening the historical cross-shareholding between BNP and UAP.

The latest deals follows the unwinding in the past few months of the cross-shareholding between Elf and Suez, the flagship French conglomerate which recently merged with the utilities group Lyonnaise des Eaux.

Andrew Jack, Paris

PepsiCo to sell PFS

PepsiCo, the US drinks and snacks group, is to sell PFS, its restaurant supply distribution unit, to AmeriServe Food Distribution, a subsidiary of Holberg Industries, on undisclosed terms. The combination of AmeriServe and PFS would create the largest food service systems distributor in the US, with more than 5,000 employees and 1997 sales expected to exceed $5.4bn.

The sale of PFS, which distributes about $3.4bn of food, equipment and other supplies to around 18,000 restaurants, is part of PepsiCo's strategy announced in January by which PepsiCo has focused on Frito-Lay, the snack business, and Pepsi-Cola, the beverage business, by spinning off its three large restaurant chains to shareholders and selling its smaller restaurant chains and PFS.

Reuter, New York

BBV to split shares

Banco Bilbao Vizcaya became the third of Spain's big banks to announce a share split in order to attract more small investors. The bank proposed earlier this year to remunerate shareholders by reducing the nominal value of its share from Pta575 to Pta550. It has now called a special shareholders' meeting on June 19 to approve a move, first to increase the share value to Pta780 through a Pta51.69bn ($362m) payment from reserves, and then to reduce it to Pta260, tripling the number of shares.

The move by Spain's largest bank by market capitalisation, follows a plan by Banco Santander to cut the nominal value of its share from Pta750 to Pta250. Banco Popular is also set to carry out a share split this autumn, reducing its nominal share valne from Pta500 to Pta125.

David White, Madrid

Dresdner Bank climbs 10%

Dresdner Bank, Germany's second-biggest bank, turned in a lower first-quarter profits increase than its two main rivals but said this mainly reflected the comparison with a very buoyant start to last year. Operating profits before risk provisions rose 10 per cent to DM991m ($586m). This compares with first-quarter increases of 21 per cent to DM1.37bn at Deutsche Bank (after provisions) and one of 20.5 per cent to D1.05bn at Commerzbank (before provisions).

However, Mr Jürgen Sarrazin, Dresdner chairman, said the result for the first three months was 25 per cent higher than one quarter of the full 1996 operating profit, a comparison that smooths out fluctuations during the year. He denied reports that the bank was interested in buying a stake in Deutsche Postbank, due to be privatised. Dresdner's sale of its indirect 10 per cent stake in Degussa, the chemicals and metals company, to the Veba group would raise DM800m, netting it more than DM500m.

Andrew Fisher, Frankfurt

Acer plans new products

Acer, the Taiwanese computer manufacturer, plans to boost the share of revenues derived from consumer electronics from 5 per cent to 20 per cent by the end of the decade. As part of this strategy it will launch new consumer products including GSM digital mobile telepbones aimed at the European market, digital set-top boxes, wide-screen televisions, and an "internet appliance device" which will hook up to a standard television and telephone line and provide access to the internet's information resources. Acer is already a leading manufacturer of desktop and portable personal computers.

Paul Taylor, Taipei

Strong advance at Fuji Photo

Fuji Photo Film, Japan's largest maker of colour film and the world's second-largest, saw increased profits and sales for the year to March because of strong sales of its new advanced photo system and foreign exchange gains due to the weakening of the yen. The company's aggressive moves to expand sales in the US during the year underpinned a bitter trade dispute with its US rival, Eastman Kodak. The two are now fighting their case before the World Trade Organisation. Fuji Film's recent announcement that it would invest about $200m to build its first film-manufacturing facility in the US has intensified thet rivalry.

In the year to March, Fuji Film's consolidated recurring profit rose 22.2 per cent to Y160.3bn ($1.38bn) on sales of Y1,252bn, up 15.4 per cent. After-tax profit rose 17.1 per cent to Y85.3bn. The dividend will be lifted Y1 to Y22.

Gwen Robinson, Tokyo

Volvo heavy truck sales fall

Volvo has underlined the continued weakness of its heavy truck operations with figures showing annualised sales down 7 per cent in the first four months. The Swedish group sold 21,047 vehicles, compared with 22,585 at the same stage last year. Worst hit were its European sales, where revenues slumped 14 per cent. Volvo said, however, that orders had risen and deliveries had picked up in the past month. It reaffirmed a forecast that the total European market would this year be between 160,000 and 170,000 vehicles.

In North America, Volvo's sales rose 4 per cent but its market share was unchanged. The group has incurred heavy losses in ths US following a sharp drop in the market last year. It said the deficit was being improved by reducing costs, but gave no indication of when break-even would be reached.

Greg McIvor, Stockholm

Weak debut for YTL shares

YTL Power International, the power subsidiary of Malaysia's YTL Corp with interests in Zimbabwe and China, made a lacklustre debut on the Kuala Lumpur Stock Exchange, due partly to weak market sentiment and partly to the fact that the company is something of an unknown quantity. The company's share price rose 30 cents, or 8.8 per cent, to close on Friday at M$3.70, after hitting M$4.50 shortly after the market opened. The initial public offering was oversubscribed more than two times, analysts said.

James Kynge, Kuala Lumpur

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / **Richard Waters in New York**

US exhibits resilience – for now

Yet another reason to believe in the longevity of the mighty US bull market? Or a hint that this party will come to an end before too long – with painful consequences?

The questions are prompted by the sight of the dollar's extraordinary gyrations on the foreign exchange markets in recent weeks.

For now, the US securities markets have greeted the swings with far greatar equanimity than would bave seemed likely, suggesting an underlying reeilience. But, given the currency markets' tendency to overshoot, the greenback's sharp reversal in May could yet have a eting in its tail.

Last week's temporary return of order left the dollar at just over Y115, or nearly 10 per cent below its high at the beginning of the month. That adds up to the sharpest change in direction between the two currencies in more than a decade.

However, May's slip has erased only a small part of the etrong dollar appreciation of the past two years. A rate of Y80 to the dollar is still a long way away.

But the reversal has provided a timely reminder that the rest of the world is long on Treasury bonds, and that the dollar's eppreciation has been both a result and a cause of this. That includes central banks, whose stash of US securities has risen by nearly a fifth in the past year, and Japanese institutions, whose return to the US fixed income markets has been one of the main forces behind the dollar'e bounce.

There are also the hedge funds and other buccaneers who have come in through the side door, using the huge difference in interest rates to borrow yen to back their purchases of dollar bonds.

With that in mind, the good news from the past month is how well the Treasury bond market has stood up to the realisation that the dollar's ascent is no longer a one-way bet.

This spring's jawboning from US and Japanese officials hae proved remarkably successful in removing the speculative momentum that had built up behind the greenback without at the same time pulling out one of the props under dollar bond markets.

In the process, it has shown that the hedge funds' yen-dollar "carry trade" has been less of a force in the market than had been thought.

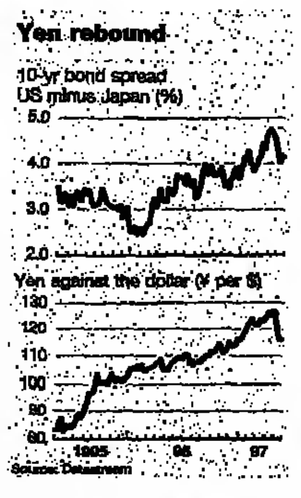
The dangers of overshooting are real, though: Japan'e decision to heed American wishes by tempering the yen's elide has been an important psychological turning point.

Hence the shift in the rhetoric by last week, with officials in Japan suggesting that a rise in yen interest rates is still some way off.

As the chart shows, there has already been a notable narrowing of the spread between US and Japanese bond yields, which had been widening while the dollar rose. But, says Mr Martin Barnes of Bank Credit Analyet: "There is still a huge positive yield spread. That isn't going to change anytime soon."

Also, it is worth remembering that the supply of dollar bonds is waning.

The US's strides towards a balanced budget are one reason. And, as Mr Charles Clough at Merrill Lynch pointed out in a recent note, private sector borrowing is far lower than is normal at this point in an economic expansion, a sign of ths strong financial position of US bnsinesees and households.



This is the background against which the US stock market bas just climbed back to reach another record.

The dollar's reversal will contribute to that in part by reducing the pressure on the foreign sarnings of US multinationals – the very companies on whose success the latest leg of the stock market's rise has been built.

To cap it all, the Federal Reserve's decision not to raise rates last week has removed – at least for now – another potential obstacle. No wonder equity investors have shaken off their recent bout of nerves and seem convinced once again of tbis market'e apparent invincibility.

The dollar's May decline could be a harbinger of things to come, however. This week's Fed inaction is a reminder that, sooner or later, the Japanese and US monetary cycles will turn.

The big interest rate differential will get squeezed. It may not happen this year, but when it doee, the US securities markets will be tested far more severely tban they have been thia month.

Total return in local currency to 22/05/97

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.06	0.07	0.14	0.12
Month	0.47	0.05	0.27	0.27	0.58	0.51
Year	5.88	0.91	3.38	4.12	8.38	6.44
Bonds 3-5 year						
Week	-0.09	-0.05	-0.49	-0.35	0.03	-0.67
Month	1.07	-1.26	0.21	0.62	1.84	1.07
Year	5.83	4.38	7.40	8.48	15.63	8.41
Bonds 7-10 year						
Week	-0.35	0.08	-1.40	-1.20	-0.45	-1.66
Month	1.24	-2.78	0.21	-0.63	2.52	2.08
Year	5.98	7.81	10.64	11.70	22.79	12.26
Equities						
Week	-0.6	-1.0	0.5	-1.1	-0.3	-0.5
Month	8.1	4.8	6.5	8.1	1.8	6.4
Year	24.9	-9.6	40.4	33.2	19.8	25.0

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Excel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE

Compiled By AFX News

Japanese chip makers suffer from price falls

Hitechi, Toshiba and Mitsubishi Electric are expected to sbow sharp falls in annual pre-tax profits this week, reflecting the impact of lower chip prices.

"Operating profits of the three are expected to fall by about Y100bn ($794m) each on average because of the drop in D-Ram chip prices," said one analyst.

Also weighing on earnings will be the heavy machinery divisions, with weak demand for power plants and moves to cut power prices squeezing margins.

The focus of the results will be the year to March 1998 forecasts and how earnings growth may be linked to restructuring.

For microchips, prices of 16MB and 64MB D-Rams are expected to remain stable over the year and this should help earnings.

Hitachi, which reports on Thursday, has forecast a pre-tax profit of Y230bn for tha year to March, down from Y348.63bn last time.

Toshiba, which reports tomorrow, recently cnt its pre-tax profit forecast to Y120bn for the year to March from the previous Y160bn. In tbe year to March 1996, Toshiba reported a pre-tax profit of some Y177.7bn.

Mitsubishi Electric, which also reports tomorrow, recently cut its year to March pre-tax profit forecast from Y78bn to Y50bn. In the year to March 1996, Mitsubishi Electric's pre-tax profit was Y128.4bn.

AFX-Asia, Tokyo

■ Nissan Motor, the Japanese carmaker, is expected to report tomorrow annual pre-tax profits of between Y85bn and Y100bn for the year to March, a turnround from tha previous year's loss of Y53.4bn, thanks to the weaker yen. Analysts forecast salee of Y6,270bn-Y6,450bn, up from Y6,040bn.

"Although Nissan'e car exports remained at the same level as a year earlier, the yen's weakness against the dollar helped revenue rise by Y70bn," said one analyst. Growth will largely come from expanding sales abroad.

Analysts said Nissan's rationalisation efforts, such as cutting staff and reducing parts costs, will also have helped raise pre-tax profit, by about Y20bn.

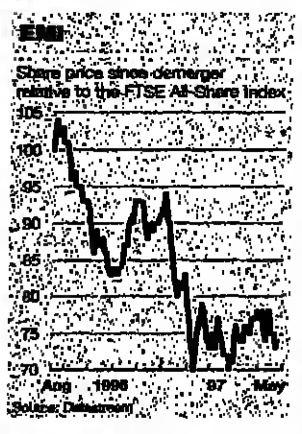
AFX-Asia, Tokyo

■ *Mitsubishi Motors* is on Thursday expected to report pre-tax profit of Y46.7bn-Y56bn for the year to end-March, up from the previous Y31.3bn. Analysts forecast revenue at Y3,400bn-Y3,600bn, little changed from Y3,540bn.

Much will depend on the way the company treats the losses incurred on the restructuring of its US unit, analysts said. "As the company has announced an extraordinary loss on the restructuring, it is possible for the pre-tax profit to fall to the level of [the previous year's] Y31.3bn ...It depends on how the company books the loss," said one.

Mitsubishi Motors recently said it would book an extraordinary loss of Y43.1bn on restructuring of Mitsubishi Motors Sales of America, a fully owned unit.

AFX-Asia, Tokyo



■ *EMI* Gronp, one of the world's largest record companies witb the Beatles, Spice Girls and George Michael among its artists, and the owner of HMV record stores and Dillons bookshops, reports year-end results tomorrow. Analysts are expecting a respectable increase in profits.

Ms Lorna Tilbian, analyst at Panmure Gordon, forecasts profits before tax and exceptional items of £370m ($600m) for the year to March 31, against £342m last time.

EMI benefited from the Spice Girls' international success last year, but was hampered by the stronger pound and a weak Christmas release schedule.

■ Anglian Water begins the utilities' preliminary results season on Wednesday with adjusted pre-tax profits predicted to be up by at least 2.8 per cent to £245.4m.

The company has already warned of two separate provisions, one for £20m to restructure and upgrade the skills of its blue-collar staff, and the second to cover its international business, including an estimated £15m for a troubled Brazilian water management deal.

Unadjusted, group profits could fall by as much as 15 per cent to £202.2m. The dividend, bowever, is expected to rise by almost 15 per cent to 34.4p.

■ United Utilities, tbe water and electricity group based in the north-west of England, is forecast to report on Wednesday adjusted pre-tax profits np 16 per cent to a beadline figure of £317m following the absorption of its acquisition of Norweb, the regional electricity company. It is expected to pay a dividend of 37.2p, up 14 per cent.

■ Analysts are expecting another good set of results on Thursday from Siebe, the engineering group which this month announced a recommsnded £332m bid for rival APV.

Pre-tax profits for the year to March, boosted by acquisitions, are estimated at abont £415m, giving earnings per share of 52p, excluding a £5m exceptional gain from property sales. This compares with profits of £331.1m on sales of £2.6bn last time. The City of London will be looking to see if the group bas met its 10 per cent organic sales growth target in all divisions and wbether the rate of growth is likely to slow next year.

INTERNATIONAL EQUITIES

Brazil lifts hedge restrictions

Tbe Brazilian government bas lifted restrictions on hedge operations by foreign portfolio investors in a move seen as strengthening the competitiveness of local markets, but which also, economists suggested, reflected concerns over a growing current account deficit.

The change applies to capital entering the country through a channel known as Annex IV, which allows foreigners to invest in Brazilian equities free of a financial operations tax (IOF) charged on fixed income investments.

It ends reetrictions imposed in August 1995 on the grounds that investors were using Annex IV to construct "boxed" hedge operations that amounted to fixed income instruments.

"The return of foreign investors will increase our contract volume by as much as 30 per cent," said Mr Manoel Cintra, president of the São Paulo Commodities and Futuree Exchenge (BM&F).

The exchange is the fourth biggest in the world, trading an everage of 580,000 contracts a day during the past month.

Mr Cintra said the BM&F would work with government regulators to prevent investors constructing boxed operations. "Interest rates are mnch lower today than in 1995 so boxes are mnch less attractive," he said.

Analyets welcomed the move, saying it would increase liquidity on the BM&F and on etock exchanges, although it was too early to say bow much capital would be attracted.

"It has been very well received," said one, "though some investors are now used to conetructing hedges elsewhere and we will have to see how many of them return to Brazil."

Economists said the government clearly hoped the move would attract foreign capital, though more because of worries over the current account deficit than through concern for the well-being of capital markets.

"The government imposed the restriction in 1995 when the level of international reserves was rising too sharply," eaid Mr Mauro Schneider, an economist at ING Barings in São Paulo. "Now it needs to attract capital. The timing of both moves makes the motive quite clear."

The strength of Brazil's currency, introduced as part of an inflation-beating reform programme in July 1994, has led to a widening trade gap expected to reach between $10bn and $15bn this year. Progress on increasing the competitiveness of Brazilian exports has been slow; meanwhile, the government has turned to foreign capital flows to finance the deficit.

The latest change is one of a series of measures designed to ettack the deficit and ettract foreign capital.

It was announced eimnltaneouely with restrictions on credit card purchases by Braziliane travelling abroad, which must now be covered in a single payment.

Last month the government cut the rate of IOF charged on foreign fixed income investments from 7 per cent to 2 per cent, and tbe central bank held ite basic interest rate steady after eight consecutive monthly reductions with the dual aim of maintaining the attractiveness of fixed income and restraining spending on imported goods.

FT/S&P ACTUARIES WORLD INDICES

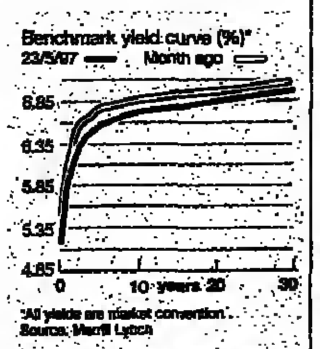
The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

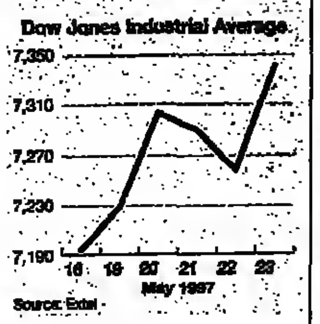
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 23 1997 US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY MAY 22 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	231.51	4.3	210.57	168.87	203.49	201.08	8.2	3.85	234.33	212.54	171.72	206.28	199.63	234.37	188.44	206.28
Austria (24)	197.86	4.2	179.96	144.32	173.91	173.85	14.4	1.89	197.14	178.82	144.47	173.55	173.50	167.86	174.70	190.24
Belgium (26)	252.34	10.6	229.52	184.06	221.80	217.18	21.9	8.29	249.93	226.70	183.16	220.02	215.42	252.34	206.70	211.11
Brazil (30)	258.19	36.1	234.84	188.33	226.94	508.90	40.3	1.41	257.64	233.69	188.81	226.81	507.30	258.50	162.65	167.26
Canada (113)	207.96	9.8	189.15	151.69	182.79	206.82	9.8	1.88	205.22	186.14	150.39	180.66	203.79	207.96	154.12	163.56
Denmark (32)	388.69	10.4	353.54	283.52	341.65	340.38	20.5	1.49	386.53	350.60	283.27	340.27	338.95	389.66	292.69	296.95
Finland (28)	279.84	13.9	254.53	204.12	245.97	299.58	26.1	1.52	276.71	250.99	202.79	243.60	298.42	279.84	186.67	192.56
France (91)	230.92	7.9	210.03	168.44	202.97	206.34	18.2	2.75	229.11	207.81	167.90	201.69	204.92	232.34	186.94	194.33
Germany (59)	213.83	12.6	194.49	155.97	187.96	187.95	23.5	1.61	212.29	192.55	155.57	186.69	186.88	213.83	167.18	169.07
Hong Kong (66)	508.25	0.2	462.29	370.73	446.74	505.06	0.3	2.89	505.57	458.57	370.50	445.07	502.18	514.49	407.55	433.31
Indonesia (27)	225.08	-1.4	204.73	164.19	197.85	337.13	1.9	1.69	223.34	202.58	163.66	196.61	334.59	–	–	–
Ireland (16)	346.65	5.4	315.30	252.85	304.69	323.05	18.0	3.02	348.63	314.41	254.02	305.15	322.11	350.98	270.08	278.91
Italy (59)	91.15	9.2	82.91	66.49	80.12	113.39	19.8	2.21	90.91	82.46	66.62	80.03	113.19	98.32	73.26	82.79
Japan (485)	132.14	2.4	120.19	96.38	116.15	96.38	1.8	0.82	130.16	118.09	95.41	114.61	95.41	158.25	107.57	155.60
Malaysia (107)	531.03	-12.0	483.01	387.35	466.76	511.61	-12.8	1.33	525.08	476.27	384.80	462.24	506.07	660.85	510.10	559.59
Mexico (27)	1437.55	17.9	1307.55	1048.59	1263.57	12383.00	17.9	1.21	1442.01	1307.96	1056.76	1269.43	12403.27	1445.66	1110.35	1310.77
Netherland (19)	377.65	12.3	343.49	275.46	331.94	327.61	23.4	2.39	376.38	341.37	275.81	331.31	326.90	377.65	279.88	295.60
New Zealand (14)	87.88	-4.2	79.84	64.10	77.25	67.54	-2.1	4.26	88.42	80.20	64.79	77.83	67.60	95.60	75.94	79.68
Norway (41)	312.96	5.9	284.67	228.29	275.10	290.23	16.8	2.08	311.08	282.17	227.97	273.85	287.32	321.23	248.04	246.15
Philippines (22)	158.76	-22.0	144.40	115.80	139.54	208.71	-21.8	0.89	158.25	141.73	114.51	137.56	205.42	–	–	–
Singapore (42)	389.13	-7.3	353.94	283.84	342.04	256.79	-5.1	1.17	388.51	352.39	284.71	342.01	256.29	448.01	360.08	418.15
South Africa (44)	354.57	11.3	322.51	258.63	311.66	346.57	6.5	2.46	356.46	323.33	261.23	313.80	348.27	370.12	301.49	350.67
Spain (35)	254.83	15.9	231.78	185.88	223.99	275.28	27.1	2.37	253.80	230.29	186.06	223.51	274.30	255.72	171.81	177.59
Sweden (49)	467.61	10.8	425.32	341.09	411.01	525.55	23.2	1.97	461.84	418.91	338.45	406.57	517.92	467.61	334.35	360.58
Switzerland (35)	297.42	24.7	270.53	216.95	261.43	259.51	30.7	1.29	296.53	268.96	217.30	261.04	258.30	297.42	229.36	230.28
Thailand (43)	64.23	-33.0	58.43	46.85	56.46	63.95	-32.9	4.68	63.85	57.91	46.79	56.21	63.66	180.09	59.78	175.75
United Kingdom (211)	299.76	5.9	272.65	218.65	263.48	272.65	11.1	3.65	300.00	272.12	219.85	264.10	272.12	303.18	229.63	230.10
USA (652)	342.72	13.5	311.73	249.99	301.24	342.72	13.5	1.78	338.15	306.71	247.81	297.68	338.15	342.72	264.79	275.36
Americas (822)	313.75	13.6	285.37	228.86	275.77	264.13	13.7	1.78	309.65	280.87	226.93	272.60	260.66	313.75	233.09	251.51
Europe (726)	264.28	10.3	240.38	192.77	232.29	242.55	18.6	2.62	263.33	238.85	192.98	231.82	241.59	264.79	204.71	207.72
Nordic (150)	401.48	10.7	365.17	292.85	352.89	390.60	22.5	1.84	397.28	360.35	291.14	349.73	386.10	401.48	291.45	299.99
Pacific Basin (682)	150.31	1.1	136.72	109.64	132.12	110.87	0.8	1.30	148.59	134.77	108.89	130.80	109.35	170.65	127.18	168.74
Euro-Pacific (1607)	197.95	6.1	179.96	144.32	173.91	160.24	10.2	2.03	196.45	178.18	143.96	172.94	159.22	198.16	173.55	184.87
North America (765)	334.52	13.3	304.27	244.01	294.03	333.75	13.4	1.79	330.08	299.39	241.88	290.58	329.27	334.52	248.65	288.44
Europe Ex. UK (514)	238.96	12.9	217.35	174.30	210.04	220.74	23.2	2.04	237.51	215.43	174.06	209.09	219.62	238.96	185.65	190.28
Pacific Ex. Japan (397)	307.05	-2.6	279.28	223.97	269.89	268.10	-1.4	2.79	306.67	278.16	224.74	269.97	268.91	320.65	268.97	290.81
World Ex. US (1821)	201.21	6.7	183.01	146.77	176.86	166.55	10.5	2.01	199.79	181.22	146.42	176.88	165.48	201.27	176.94	198.18
World Ex. UK (2262)	241.01	10.2	219.22	175.80	211.84	211.49	11.8	1.72	238.33	216.16	174.66	209.81	209.27	241.01	199.58	212.15
World Ex. Japan (1988)	304.62	11.3	277.07	222.20	267.76	283.44	14.0	2.13	301.89	273.82	221.23	265.76	280.65	304.62	233.10	245.99
The World Index (2473)	246.06	9.8	223.80	179.48	216.28	217.09	11.6	1.81	243.81	220.96	178.53	214.45	215.00	246.06	202.32	213.82

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 148.94 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 23/5/97: Name changes: Southern National Corp. to B B & T Corp. (USA) and WMX Technologies to Waste Management (USA).

MARKETS: This Week

NEW YORK By John Authers





Technical factors, as opposed to fundamentals, had the greatest influence on US markets last week, and this will probably continue when traders resume on Tuesday after their long weekend.

Sentiment was boosted by the Federal Reserve's decision not to tighten monetary policy last week, but speculation has already started on whether Mr Alan Greenspan, Fed chairman, will choose to tighten in early July.

Equities in particular were helped by the Fed's decision on base rates, and the Dow Jones Industrial Average, measuring 30 blue-chip stocks, rallied to a record close on Friday of 7,345.91.

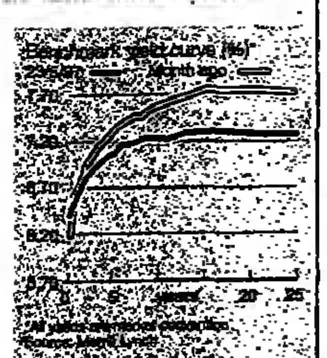
Analysts were impressed by the way the rally was not limited to the largest stocks, and smaller companies indices, which have under-performed badly for the last year, also started to post strong new highs.

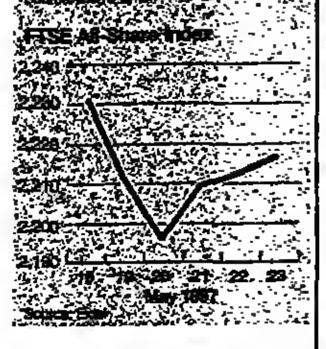
However, worries about the extra supply due this week held bonds back.

Key events this week could be the treasury's auctions of two-year notes on Wednesday, and of five-year notes on Thursday. If the market has difficulty absorbing them, higher bond yields could act as a dampener on stock prices in the next week.

The oew economic data expected this week is unlikely to have a significant impact on the markets. Wednesday brings the durable orders figures for April – expected by a consensus of analysts to show a rise of 1.0 per cent, following a fall of 3.0 per cent in March, according to Standard & Poor's MMS – while Friday sees the preliminary release of gross domestic product figures for the first quarter.

LONDON By Philip Coggan





The post-election rally showed some signs of running out of steam last week and there seems little on the horizon to kick start it again over the next four trading days.

Thursday's trade figures and Friday's mortgage lending numbers are the only economic statistics of note; for once, there are no monetary meetings involving, or pronouncements expected from, the Bank of England.

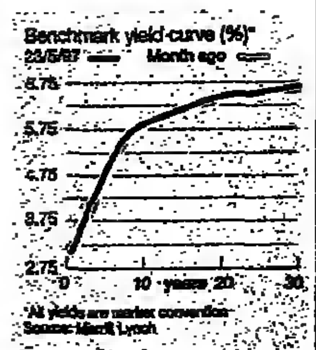
The big market-moving news is likely to come from elsewhere with the first round of the French elections potentially provoking some debate about the prospects for European monetary union and the revised first quarter US gross domestic product numbers possibly raising questions about the Federal Reserve's recent decision not to raise interest rates. Some fear that the Fed will have to make up for its inaction in July.

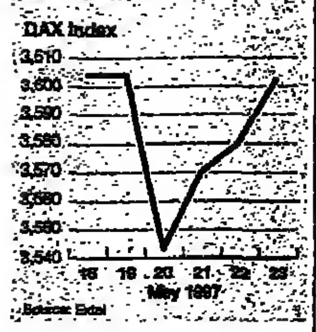
While the UK stock market has had its own reasons for setting all-time highs, the favourable international background of low inflation and low interest rates has undoubtedly played its part.

Domestically, the economy continues to divide into a flourishing consumer sector and an industrial sector struggling to cope with the strength of the pound. Profit warnings have been taking their toll of a number of, mostly second-line, stocks, emphasising the importance of share selection.

This week's batch of results comes from the demerged Thorn and EMI, Siebe and a batch of utilities in the form of Anglian, South West and Yorkshire Water and United Utilities.

FRANKFURT By Graham Bowley





German shares remained bnoyant last week, rising above the previous week's close which had pushed the DAX index of 30 top companies through the 3,600 level for the first time. At the end of floor trading on Friday, the Dax stood at 3,602.19. It took a further big step upwards in electronic trading to close at 3,621.72.

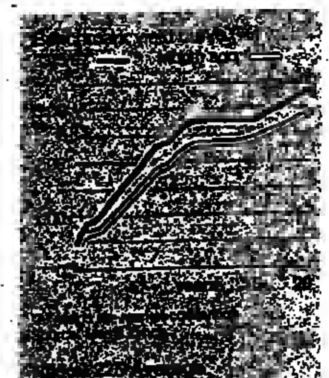
This came after a week of encouraging economic data which showed mooey supply growth slowing and economic activity picking up in the second quarter.

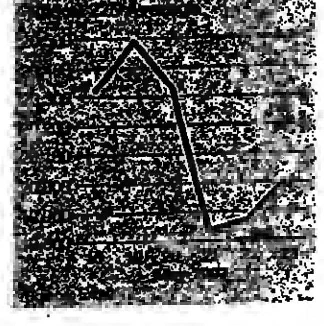
M3 money supply growth slowed more sharply than expected in April, with the annualised rate of growth falling to 6.7 per cent from 8.3 per cent in March. This took it close to the Bundesbank's 3.5 per cent to 6.5 per cent target corridor, but analysts at UBS said further falls in the growth rate were unlikely to prompt speculation of a cut in German interest rates.

This week holds a rash of company news, including Allianz annual results on Wednesday. Daimler-Benz is also holding its annual shareholders' meeting on Wednesday. Commerzbank holds its AGM on Friday. Corporate news last week included the purchase by Veba, the power and industry group, of a 36.4 per cent stake in Degussa, the chemicals concern.

On the economic front, there is likely to be more consumer price data trickling out this week. Import price figures are likely to show a fall in the annual inflation rate to about 2.1 per cent in April, according to J. P. Morgan. A continued subdued inflationary performance could again help bond prices. These rose further last week, leading to a modest fall in bond yields.

TOKYO By Gwen Robinson





Signs that the dollar has settled at Y116-Y117 for the time being calmed markets on Friday. Exchange-rate turbulence earlier in the week had panicked investors and sent the Nikkei 225 index plunging back below the 20,000 level, after substantial gains in preceding sessions.

The 225 index rose 136.61 to end the week at 20,009, after sliding 2.4 per cent on Wednesday on the dollar's plunge to Y111. If currency markets appear stable after the holiday weekend in the US and Europe, stocks are expected to trade on the upside of 20,000. But gains may be capped at 21,000, as the market is due for a consolidation phase after its sharp rise and retreat.

Investors may harbour lingering concerns about export-driven shares, which tumbled on the dollar's recent fall. However, analysts say many blue-chip exporters have now fallen to attractive levels. Buying interest will also track the corporate results season, which ends this week after last Thursday's peak.

Japanese government bonds will benefit in the short term from official indications that interest rates will not be raised in the next few months. Speculation of a July rate increase had been persisting. But in an interview published on the weekend, Mr Eisuke Sakakibara, the finance ministry's "Mr Yen," suggested thet Japan's economic fundamentals had not yet sufficiently recovered for the Bank of Japan to raise the official discount rate, now at 0.5 per cent, any time soon. However, Mr Sakakibara warned investors should expect an increase to 1 per cent "some time in the year ahead".

COMMODITIES By Susanna Voyle

London set for pulp futures

Trading of pulp futures starts in London for the first time this week.

More than 15 wood pulp producers and consumers have lined up to start dealing in tbe electronically-traded contract which will be launched on Thursday.

OMLX, the London-based securities and derivatives exchange operated by OM group of Sweden, says the contract will give players in the pulp and paper industry – either sellers or buyers – a way to lessen exposure to price fluctuations through hedging.

Pulp has proved to be highly volatile over the past few years. From $400 a tonne in 1994, it soared to $950 in 1995. Six months later it had fallen to $500, where it languishes now.

"This volatility is not unique to the pulp and paper industry," says OMLX. "What does make the pulp and paper industry special in comparison with other volatile and global commodity markets is the fact that it lacks a hedging mechanism.

"Without the ability to manage pulp and paper risks, you are caught up in a never-ending game of chance."

The new contract – called Pulpex – will be a direct challenge to the wood pulp futures market started by Finland's Futures and Options Exchange in February. The Finnish market, however, has not been very successful, trading some 100 cootracts in the first three months against a forecast of 20,000 for its first year.

The London market will offer two dated contracts – one for September and one for December, with options trading on botb starting three business days after Thursday.

The London contract will have a physical delivery system. Stocks of pulp will be stored in five warehouses in three ports – Antwerp, Rotterdam and Terneuzen.

Each contract – of northern bleached softwood kraft (NSKB) – will be for 24 tonnes. The daily settlement price will be determined by taking the last traded contract of the day.

OTHER MARKETS Compiled by Jeffrey Brown

Friday's rally left most European hourses pressed firmly up against all-time peaks.

PARIS

The French bourse could be an interesting place this morning as the results of yesterday's first round voting in the general election filter through to the stock market.

Although most political commentators remain convinced that Mr Jacques Chirac's coalition will eventually emerge in a winning position, share prices were beset by all sorts of doubts on a number of trading sessions last week.

Mr Roger Monson, chief equity strategist at Daiwa Europe, says any reoewed weakness could present good bnying opportunities. He points out that honds and the franc have not ehared in the general run of election jitters, and that there is plenty of French precedence for small majority coalition parties ruling very effectively.

Ahead of Sunday's second round vote, there is limited corporate news. A number of companies hold annual meetings, including hotels leader Accor, retailer Casino (both of which have been linked with various takeover stories this year), car giant Renault and LVMH, the luxury goods group.

Shares in the latter hit a nervous patch last week following the news that newly acquired Duty Free Shops had lost out on a couple of Hong Kong airport concessions. But HSBC James Capel remains a firm buy on the stock.

The broker suggests that the yen exchange rate, up smartly against the dollar in recent sessions, is the real key to DFS's earnings since Japanese tourists account for more than 65 per cent of its Asian turnover.

AMSTERDAM

Three component companies of the AEX, the leading Dutch stock market index, make themselves available this week. From the financial sector, ING and Fortis Amev pump out first-quarter results while chemicals group Akzo Nobel bosts an analysts meeting.

ING hit the headlines last week when it published a US listing prospectus which showed 1996 earnings to be 41 per cent higher under US accounting. The shares ended the week 8 per cent higher and hoping for more good newe when the 1997 first quarter numbers emerge on Thursday.

MILAN

Is this the week that the Bank of Italy makes its long awaited move on interest rates? Last week's preliminary inflation for May was positive and the market betting is for a rate cut of between 50 and 75 basis points. Bnt most analysts feel that the central bank may continne to resist downside pressure until the end of next month when a clearer picture of government spending cuts becomes available.

Italian bank mergers are even more in focus following last week's news of a link-up between Cariplo and Ambroveneto. Having failed to win Cariplo, BCI is said to be working hard on alternative potential alliances.

HONG KONG

Fever pitch excitement among China stocks (red chips) following the massive oversubscription for the Beijing Enterprises flotation, hoisted Hong Kong to record levels on Friday.

Continned nervousness in many competing Asian markets in the wake of the flight by foreign investors out of Thailand also helped sentiment.

Beijing Enterprises makes its stock market debnt on Thursday. The issue is said have been 1,000 times subscribed and to have tied up HK$200bn in the local banking system as investors scrambled to buy a slice of the action.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Cable & Wireless (UK)	Intel (Panama)	Telecoms	$652m	Sector shake-ups continue
SBC Warburg (Switz/UK)	Dillon Read (US)	Banking	$600m	ING loses interest
Vattenfall (Sweden)	Savon Voima (Finland)	Power	$155m	Expansion signalled
Goodyear (US)	Sava (Slovenia)	Tyres	$100m-plus	Intent on majority stake
Da La Rue (UK)	Unit of Phillips (Netherlands)	Business services	$88m	Smart move in France
Omega Healthcare (US)	Quality Care Homes (UK)	Healthcare	$75m	Cash finally accepted
Fenner (UK)	Scandura (US)	Engineering	$71.5m	Heavy duty leapfrog
Kingfisher (UK)	BCC Holding Amstelveen (Netherlands)	Retailing	$54m	Continues continental growth
Bell Helicopters (US)	IAR Ghimbav (Romania)	Aviation	$25m	Privatisation landmark
Innovative Technologies (UK)	Unit of Polymedica (US)	Healthcare	$20m	Conditional deal

CURRENCIES By Richard Adams

Holiday may give central banks chance to adjust

The currency markets start the week with a whimper, as both New York and Loodon will be closed for holidays today – which may encourage some central banks to manipulate their currencies.

Late last week a few central bankers took advantage of weak dollar flows to prop up or fine tune their exchange rates. That gave respite to some emerging market currencies, which were buffeted by tha unwinding of positions founded on cheap Japanese yen borrowing.

The mere threat of rising Japanese interest rates sent mooey ont of higher-yielding currencies, such as tbe Czech koruna and the Thai baht. However, there is little in the way of data being published during the week to spark the yen's rise, in the manner of April's trade surplus of Y831bn ($7.2bn).

On Friday the May CPI inflation figures for Tokyo will be published. Product price rises and increases in services following April's higber consumption tax should be offset by price cuts.

But any rise in the rate of inflation might be undercut by Friday's figures for large-scale retail store sales. They rocketed 14 per cent in Marcb as shoppers rushed to beat tha consumption tax rise, and the drop back could be just as steep.

The UK's trade balance could spell problems for the pound, if Thursday's figures for viaible trade in March and non-EU trade in April exceed expectations.

A visible trade deficit of more than £1bn could ring loud warning bells for the strength of starling, although it will further highlight the policy dilemma of the monetary and fiscal mix to be adopted to combat it.

June 6 is a key date for the market on both sides of the Atlantic. The combination of non-farm payroll figures in the US and in the UK the first meeting of the newly-independent Monetary Policy Committee of the Bank of England will cast a shadow over the coming week.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, May 23, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7742.96	4750.00	2809.49	4116.30
Albania	(Lek)	273.042	167.500	99.0714	145.154
Algeria	(Dinar)	92.3703	56.6347	33.4978	49.0790
Andorra	(French Fr)	9.2857	5.6964	3.3693	4.9364
	(Sp Peseta)	232.444	142.595	84.3433	123.571
Angola	(Read) Kwanza)	320997.8	196919.0	116471.9	170647.5
Antigua	(E Carib $)	4.4013	2.7000	1.5970	2.3398
Argentina	(Peso)	1.6291	0.9994	0.5911	0.8661
Armenia	(Dram)	792.783o	486.340	287.656	421.457
Aruba	(Florin)	2.9179	1.7900	1.0587	1.5512
Australia	(Aus $)	2.1288	1.3059	0.7724	1.1317
Austria	(Schilling)	19.3971	11.8993	7.0383	10.3116
Azerbaijan	(Manat)	6526.93o	4004.00	2368.25	3469.82
Azores	(Port Escudo)	278.177	170.650	100.938	147.883
Bahamas	(Bahama $)	1.6301	1	0.5915	0.8666
Bahrain	(Dinar)	0.6145	0.3770	0.2230	0.3267
Balearic Is	(Sp Peseta)	232.444	142.595	84.3433	123.571
Bangladesh	(Taka)	71.1540	43.6500	25.8185	37.8268
Barbados	(Barb $)	3.2786	2.0113	1.1896	1.7430
Belarus	(Rouble)	70643.5o	43336.9	25632.5	37555.3
Belgium	(Belg Fr)	56.8905	34.8000	20.6429	30.2439
Belize	(B $)	3.2602	2.0000	1.1829	1.7332
Benin	(CFA Fr)	928.670	569.840	336.933	493.639
Bermuda	(Bermudian $)	1.6301	1	0.5915	0.8666
Bhutan	(Ngultrum)	58.2517	35.7850	21.1368	30.9675
Bolivia	(Boliviano)	8.5417	5.2400	3.0994	4.5409
Botswana	(Pula)	5.7708	3.5398	2.0938	3.0676
Brazil	(Real)	1.7455	1.0708	0.6334	0.9279
Brunei	(Brunei $)	2.3343	1.4320	0.8470	1.2410
Bulgaria	(Lev)	2573.11	1578.50	933.637	1367.91
Burkina Faso	(CFA Fr)	928.570	569.840	336.933	493.639
Burma	(Kyat)	10.0776	6.1822	3.6565	5.3574
Burundi	(Burundi Fr)	555.677	340.885	201.624	295.407
Cambodia	(Riel)	3748.23	2300.00	1360.38	1993.15
Cameroon	(CFA Fr)	928.670	569.840	336.933	493.639
Canada	(Canadian $)	2.2387	1.3734	0.8123	1.1901
Canary Is	(Sp Peseta)	232.444	142.595	84.3433	123.571
[illegible]					
Falkland Is	(Falk £)	1	0.6135	0.3629	0.5316
Faroe Is	(Danish Krone)	10.4958	6.4387	3.8084	5.5797
Fiji Is	(Fiji $)	2.2895	1.4045	0.8307	1.2171
Finland	(Markka)	8.3154	5.1012	3.0173	4.4206
France	(Fr)	9.2857	5.6964	3.3693	4.9364
Fr. Cty/Africa	(CFA Fr)	928.570	569.840	336.933	493.639
Fr. Guiana	(Local Fr)	9.2857	5.6964	3.3693	4.9364
Fr. Pacific Is	(CFP Fr)	168.699	103.490	61.2113	89.6833
Gabon	(CFA Fr)	928.570	569.840	336.933	493.639
Gambia	(Dalasi)	16.1519	9.9085	5.8606	8.5866
Germany	(D-Mark)	2.7359	1.6907	1	1.4651
Ghana	(Cedi)	3260.20	2000.00	1182.94	1733.16

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6135	0.3629	0.5316
Greece	(Drachma)	440.152	270.015	159.711	233.992
Greenland	(Danish Krone)	10.4958	6.4387	3.8084	5.5797
Grenada	(E Carib $)	4.4013	2.7000	1.5970	2.3398
Guadeloupe	(French Fr)	9.2857	5.6964	3.3693	4.9364
[illegible]					
Namibia	(S A Rand)	7.2896	4.4720	2.6451	3.8754
Nauru Is	(Australian $)	2.1288	1.3059	0.7724	1.1317
Nepal	(Nepalese Rupee)	92.8343	56.9500	33.6843	49.3522
Netherlands	(Guilder)	3.0984	1.9007	1.1242	1.6471
N'nd Antilles	(A/Guilder)	2.9179	1.7900	1.0587	1.5512
New Zealand	(NZ $)	2.3592	1.4473	0.8561	1.2542
Nicaragua	(Gold Cordoba)	15.1409	9.2883	5.4936	8.0491
Niger Rep	(CFA Fr)	928.570	569.840	336.933	493.639
Nigeria	(Naira)	35.8764o	21.9860	12.9449	18.9662
	(Naira)	138.502m	84.9660	50.2556	73.6297
Norway	(Nor. Krone)	11.4923	7.0499	4.1684	6.1042
Oman	(Rial Omani)	0.6276	0.3850	0.2277	0.3336

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(2)	65.7739	40.3496	23.8663	34.9665
Panama	(Balboa)	1.6301	1	0.5915	0.8666
Papua New Guinea	(Kina)	2.2624	1.3879	0.8209	1.2027
Paraguay	(Guarani)	3519.39	2159.00	1276.99	1870.97
Peru	(New Sol)	4.3410	2.6630	1.5751	2.3077
[illegible]					
Virgin Is-British	(US $)	1.6301	1	0.5915	0.8666
Virgin Is-US	(US $)	1.6301	1	0.5915	0.8666
Western Samoa	(Tala)	4.0229	2.4679	1.4597	2.1387
Yemen (Rep of)	(Rial)	211.913r	130.000	76.8912	112.657
Yugoslavia	(New Dinar)	8.9826	5.5104	3.2592	4.7753
Zambia	(Kwacha)	2109.35	1294.00	765.364	1121.37
Zimbabwe	($)	18.4079	11.2925	6.6794	9.7860
Zaire see Congo DemRep					
ECU	(ECU)	1.4138	0.8673	0.5130	0.7516
SDR	(SDR)	1.17472	0.716640	0.423871	0.623709

Abbreviations: (o) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Pakistan Rupee devalued by 7.86pc against US dollar 22/10/96 (3) Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs; FT enquiries to Business Research Centre 0177 256 0130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.

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Friday, May 23, 1997

هكذا من الأصل

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EMERGING MARKETS

Bangkok rally generates false hopes

Last week's 3.5 per cent rally in the Bangkok stock market may have raised some false hopes among domestic Thai investors, after this year's 30 per cent slide in share prices.

Investors had been running scared from this month's currency troubles, but sentiment was lifted after Bt1bn in support from Thai banks entered the market, artificially pushing up the value of widely held large cap stocks.

"Sure, the light ahead might be the end of the tunnel," says the head of research at a big brokerage house. "But I fear it's from an oncoming train."

"Carnage" could ensue, says another foreign broker, and many fund managers and analysts say this is likely to make Thailand unattractive for even the most risk-prone investors for the rest of the year.

Even that scenario assumes that trading in the Thai baht remains calm, as it did last week after the Thai central bank imposed selective capital controls to deter speculators.

Another attack on the baht would mean that even the most pessimistic bets are off.

Few are even betting any more. Foreign investors, who over the past four years have determined the overall direction of the Thai market, remained net sellers over the week despite the entrance of the support fund.

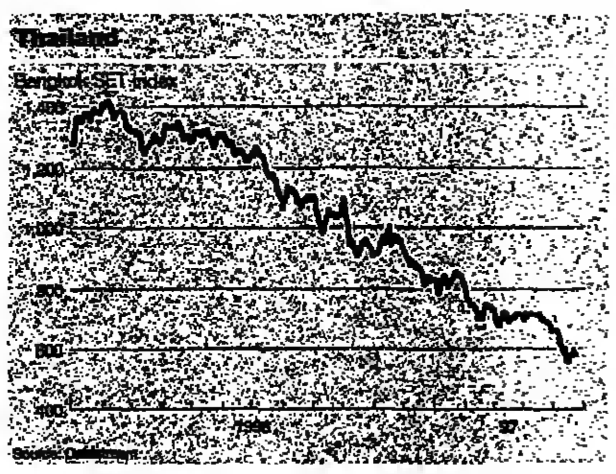
"The record of support funds has been dismal," says Mr Supavud Saicheua, senior vice-president at Phatra Thanakit, a leading Thai securities house.

"And this one is being funded by banks who must raise the money from somewhere – which is bound to come back to hurt the market through poor bank earnings, or because the banks won't have money to lend to other companies."

Another Bt2bn a week will enter the market for the next two weeks, spurring rallies that will, according to some brokers, be the last opportunities to get out.

That chance may not even come. The collapse of the planned bail-out of Finance One, the country's largest finance company, by Thai Danu Bank after the close of trading on Friday has everyone spooked.

Either the government will engineer a rescue of Finance One in the name of protecting the financial system, thus upsetting foreign investors who want to see a company or two actually go bust, or it will let Finance One fail, scaring domestic investors who will abandon the entire finance sector in droves fearing that other companies will follow suit.



Some investors claim that with the market down 58 per cent since its 1996 high, companies are starting to look cheap. But that does not necessarily mean that they are buying.

"It's getting cheaper by the day so there ought to be some value out there," says Mr Mark D. ten Hove, executive director and chief investment officer at OCBC Asset Management in Singapore.

"But I don't see a concerted effort by the authorities to clean up Thailand's economic problems so I think a Japanese pattern might emerge where the market trades between 500 and 600 or 550 and 650 for a number of years. It's going to be pretty dull."

Or it could be exciting for those who might be involved in illegal short-selling, as was alleged by the Thai Securities and Exchange Commission last week. Some brokerages are said to be doing good business offering options on the Thai market that kick in at as low as 380 points.

With many foreign investors redeeming their Thai mutual funds, and domestic mutual funds winding up over the next year, there is going to be automatic selling pressure on some of the country's most quality stocks, like Bangkok Bank and Thai Farmers Bank, which form the core of most funds' holdings.

Meanwhile, two problems will emerge for commercial banks over the summer. First the banks have to make extra provisions for doubtful loans, which will hurt earnings and dampen sentiment.

Second, they will have to reveal the extent of their non-performing loans for the first time.

If the numbers are high, investors are likely to sell. If the numbers are low, investors will believe it is because they have been allowed some leeway over how to classify their loans and are likely to sell, fearing a continued pattern of lax regulation by the central bank.

Another time bomb is ticking in the eurobond market, where more than 50 Thai companies, concentrated in the banking, finance and property sectors, have outstanding issues that were floated at the market boom back in 1993 and 1994.

Between now and the end of 1998, six companies are likely to have to redeem those bonds, and brokers are worried about the ability of five of them to pay.

When Somprasong Land defaulted on a eurobond in January, it sent the market into a prolonged tailspin.

The only hope for the Thai market "is for a sustained recovery in the economy and a revival of corporate earnings growth," says Mr David Reidel, head of research at Salomon Brothers in Bangkok. "And we're talking about real turnround here, not promises and projections."

That turnround will depend largely on a cut of at least 200 basis points in domestic interest rates, for which there is a considerable amount of political pressure on the central bank to enact.

But such a significant cut cannot occur while the bank is busy defending an exchange rate policy which effectively pegs the value of the baht to the US dollar.

Abandoning that peg could eventually bring rates down. But it could also, if bungled, lead to a disastrous devaluation.

Either way there will be a buying opportunity, most analysts say.

The peg could be abandoned calmly, leading to a market supporting economic recovery, or there will be trauma and investors will be leaping in to pick up the numerous, but very cheap, pieces.

Ted Bardacke

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	23/05/97	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	176.99	+2.60	+1.49	+3.18	+1.83	+18.88	+10.54
Latin America							
Argentina (22)	127.65	+3.27	+2.63	+11.35	+8.76	+20.52	+19.15
Brazil (24)	359.82	+8.61	+2.45	+27.48	+8.27	+98.79	+37.85
Chile (16)	201.98	+7.66	+3.95	+11.08	+5.81	+39.43	+24.27
Colombia (13)	243.91	+4.49	+1.88	+9.37	+4.00	+70.22	+40.43
Mexico (27)	96.93	+1.85	+1.94	+2.93	+3.12	+15.26	+18.68
Peru (12)	1,285.94	+11.59	+0.91	+39.95	+3.21	+278.73	+27.67
Venezuela (6)	68.24	-1.34	-1.90	+7.39	+11.95	+7.06	+11.36
Latin America (119)	183.62	+4.22	+2.35	+11.59	+6.73	+40.32	+28.10
Europe							
Czech Rep.(14)	85.77	-2.57	-2.91	-8.64	-9.15	-18.51	-17.75
Greece (20)	203.08	+9.93	+5.14	+35.85	+21.43	+90.78	+80.83
Poland (25)	326.01	-7.85	-2.29	-26.89	-7.62	-17.74	-5.16
Portugal (18)	179.66	-3.91	-2.13	+10.97	+6.51	+33.49	+22.91
South Africa (30)	144.26	-0.79	-0.55	-0.21	-0.15	+14.38	+11.07
Turkey (27)	153.54	-5.28	-3.33	-3.66	-2.45	+28.50	+22.79
Europe (134	137.63	-0.83	-0.60	+2.77	+2.05	+18.29	+16.30
Asia							
China (27)	62.03	+0.92	+1.50	+1.87	+3.10	+5.56	+9.82
Indonesia (30)	149.49	+0.06	+0.04	+0.49	+0.33	-6.94	-4.44
Korea (23)	85.92	+3.48	+4.22	+4.05	+4.94	+4.70	+5.57
Malaysia (24)	233.15	+6.47	+2.66	-9.23	-3.81	-47.27	-16.86
Pakistan (13)	83.39	-0.14	-0.21	+1.67	+2.68	+7.94	+13.58
Philippines (16)	254.16	+3.19	+1.27	-34.10	-11.83	-59.61	-19.00
Taiwan (31)	202.03	-0.29	-0.14	-3.30	-1.61	+16.64	+8.98
Thailand (29)	111.06	+5.36	+6.07	-23.40	-17.40	-44.10	-28.42
Asia (193)	202.68	+3.21	+1.61	-7.20	-3.43	-14.89	-6.84

All Indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

Ukraine moves to allay investors' fears

Ukraine has reassured foreign investors attracted to the country's fledgling treasury bill market by vowing to keep its currency – the hryvnia – within a corridor of 1.7 to 1.9 against the dollar. Mr Viktor Yushchenko, Ukraine's central banker, said: "We categorically support the existence of the corridor. This is our credo, this is our conviction."

Foreign interest in the market was heightened when Kiev announced the corridor earlier this year, but recently some buyers have been getting cold feet amid rumours that the band might not come into full force until after the passage of a contentious 1997 budget by parliament.

"This [Mr Yushchenko's reassurance] means that the central bank is very serious about defending the currency. It is positive news for foreign investors," said a trader at one of the US banks involved in the Ukrainian T-bill market.

Mr Yushchenko said Kiev's commitment to the hryvnia corridor was formalised in a joint statement by the central bank and the cabinet of ministers, which committed Ukraine to maintain the current corridor until October 1. He said the central bank planned to extend the existing band until the end of the year.

According to Mr Yushchenko, the corridor is likely to be further formalised later this year as part of loan negotiations between Ukraine and the International Monetary Fund. The talks cannot be concluded until the 1997 budget has been approved.

Mr Yushchenko's promise to defend the currency comes as at a time of increasing strain on Ukraine's fragile young democracy and market economy. A spate of corruption scandals has tarnished the government's reputation, wage and pension arrears have impoverished the long-suffering population and a stand-off between the parliament and government means that nearly five months into 1997 the budget has not yet been passed.

Mr Yushchenko admitted that pressure was mounting on the infant hryvnia.

"If you consider that a budget has not yet been passed and that payments are delayed in the state sector, this is a serious threat to stability of the hryvnia and also, more broadly, to social stability," he said.

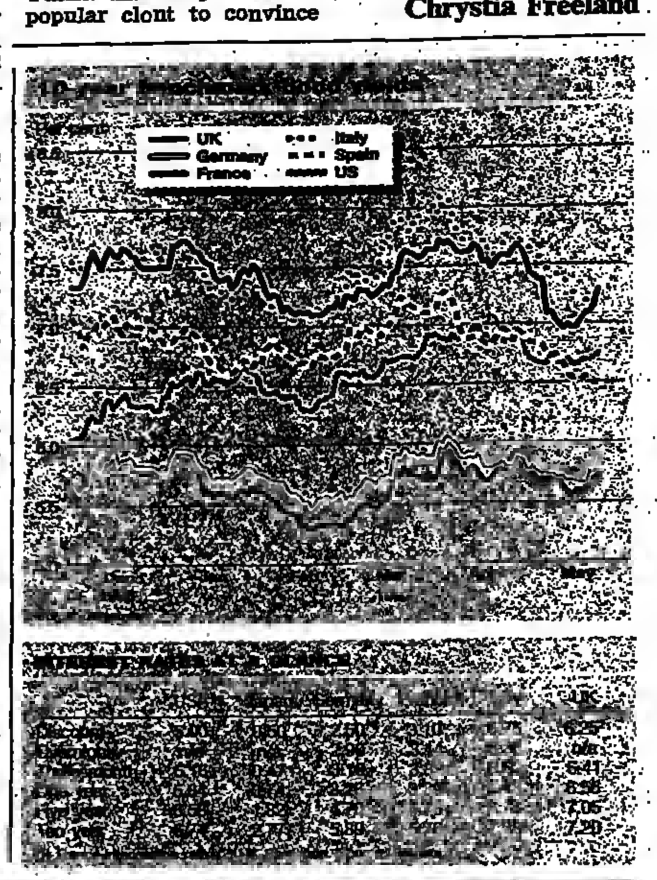
But Mr Yushchenko said the central bank would not bend to pressure to turn on the printing presses and print money.

Untainted by the corruption allegations which have eroded public confidence in much of the government, Mr Yushchenko may have the popular clout to convince Ukrainians that the hryvnia should be sacrosanct.

Mr Yushchenko's man of the people profile may be enhanced if he can push through a plan to introduce new treasury bills in smaller denominations aimed at Ukrainian savers. By tapping into what Mr Yushchenko estimates to be the $10bn pool of savings Ukrainians currently keep "under the mattress", the central bank hopes the programme would help bring down annualised bond yields which currently range between 23 and 33 per cent.

Mr Yushchenko said the retail bonds were printed and all that remained was to resolve a dispute between the government and national bank over the rate at which the first $50m tranche should be issued.

Chrystia Freeland



NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
BPH Finance(a)§	100	May 2002	3.00‡	100.00	-	-	CSFB
Islamic Rep of Pakistan‡	300	May 2000	(c)	99.90R	-	-	ANZ Investment Bank
Abaxa(d)§	150	Jun 2002	(d1)‡	100.00	-	-	Deutsche Morgan Grenfell
Bank of Beirut	50	Jun 2000	8.875‡	99.884R	[illegible]	[illegible]	MEESPierson
Rabobank Nederland	250	Jun 2000	6.375	99.76R	6.456	[illegible]	Nikko Europe
DGS Intl Finance Corp.(j)	225	Jun 2007	10.00‡	99.436R	[illegible]	[illegible]	[illegible]
LB Rheinland-Pfalz(f)	100	Jun 2001	6.625	100.02R	[illegible]	[illegible]	[illegible]
DSL Bank	250	Jun 1999	6.25	99.799R	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANCS							
North East Finance of Japan	150	Jun 2002	3.80	103.00	2.357	-	Bq Paribas/BJ(Switz)
Merrill Lynch & Co(k)	100	Apr 2002	3.00	103.375	2.487	-	Merrill Lynch Cap Mkts
ITALIAN LIRE							
Mediobanca Intl(l)§	915bn	Jun 2002	2.00	86.836	-	-	Goldman/Medio/Paribas
Edizioni Bayhis-Say(n)‡	350bn	Jun 2004	(n1)	100.008	-	-	BCI/Credito/JP Morgan
Bayerische Vereinsbank	300bn	Jul 2002	6.625	101.625	6.190	-	Credito/Monte d Paschi
GUILDERS							
Wolters Kluwer	500	Jan 2007	6.25	99.936R	6.260	+55(t)	Rabobank International
LUXEMBOURG FRANCS							
Rabobank Nederland	2bn	Jul 2005	5.50	102.50	5.111	-	BBL/BIL/Rabobank
Tractebel Investment Intl	2bn	Jul 2005	5.875	102.75	5.442	-	BCEE/BGL
EURO / **AUSTRALIAN DOLLARS** / **DANISH KRONER** / **ECUS** / **NEW ZEALAND DOLLARS** / **RAND** / **DRACHMAS** / **ZLOTYS** / **NEW TAIWANESE DOLLARS**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] launched 14/5/97 was increased by FFr500m at 99.44R and FFr200m at 99.76R. Callable on 13/6/02 at par. g1) 5.105% to 13/6/02, then 6.70%, to 4% to 20/6/01, then Tec-10 -23bp. i) Over interpolated yield. j) Exchangeable into Allianza Assicurazioni shares. Denoms: L20m. 1311.476 shares/bond. Overallotment option: approx 15%. k) Includes L150bn increase at 100.27%. k1) 3-mth Libor +25bp. l) Long 1st coupon. m) All payments in Italian Lire. n) Callable from 1/6/02 at 105% falling 1½%pa to par. o) 6-mth Libor +500bp. p) Exch into shares of Reuters Holdings at 101.19 shares per £1,000 nominal. Callable from 18/10/02 at accreted YTM of 8%. q) Payments in Ecu prior to Emu. r) Jumbo Subordinated. Amortises semi-annually from 30/11/97: average life 8.7 yrs. Callable at par plus premium to yield Treasuries +35bp. Mandatory redemption clause. s) Short 1st coupon. t) Amortises after 3 yrs: average life 6.86 yrs. Monthly coupons, semi-annual yield. Callable at par plus premium to yield Treasuries +75bp. u) Long last coupon. v) Secured on EU sovereign bonds. Callable on 7/8/99 at par. Includes FFr500m increase at 100.063%. v1) 3-mth Pibor +8bp. w) Callable from 12/6/07 at par. w1) 6½% to 12/6/07, then 3-mth Pibor +170bp. x) Issuer has option to convert annually into FRN paying 6-mth Libor +5bp. y) Legal maturity: 15/6/37. Callable from 15/9/07. y1) 3-mth Libor +15bp to 15/9/07, then +40bp. y2) Class B: £2.48m and Class M: £4.11m. z) Amortises from 24/7/07: average life 22.37 yrs. Callable from 30/10/08 at par. Quarterly coupons, semi-annual yield. z1) 6.415% rising 25bp per annum to 6.792% from 24/7/07 to maturity. A) Fungible with SFr150m. Plus 75 days accrued. Note: Yields are calculated on ISMA basis.

ATHENS STOCK EXCHANGE May 19th - May 23rd 1997 — GREECE

ASE INDEX	1727.70	P/E (after tax) 97e/98e	15.2/10.7	GDP (USD bn) 97e	120.68
%Chg (31/12/96)	85.06	EPS GROWTH (%) 97e	18.9	Per Capita Income (USD)	11,604
Yearly High	1728.03	P/E 97e/EPS GROWTH (%) 97e	0.80	Inflation Rate (% Y.O.Y, April 97)	[illegible]
Yearly Low	962.98	P/CE 97e/98e	[illegible]	12 M T-Bill rate (%)	[illegible]
WEEKLY VOL (USD m)	607.56	P/BV 97e/98e	[illegible]	1-Month Athibor (%)	[illegible]
%Chg (Prev. Wk)	12.93	Div. Yield (%) 97e/98e	[illegible]	GRDUSS	[illegible]
1 Y Wk Avg. (USD m)	214.25				

A.S.E. Market Capitalisation - 23/5/97 (USD bn) [illegible]
IPOs & Rights Issues (in USD m) Jan 1 97-May 23 97 [illegible]

Turkey

The government is on notice from the army that there is no room for the premier's brand of Islamist politics. **John Barham** reports

Living in the long shadow of Atatürk

Kemal Atatürk died nearly 60 years ago, bot remains Turkey'e dominant figure. Giant paintings of Atatürk in various poses and uniforms hang from state buildings in Ankara on national holidays.

Every year, at exactly five minutee past nine on the morning of November 10, the moment Atatürk died in 1938, Turks everywhere stand still for a minute of silence. His mausoleum complex on a hill in the capital is a secularist ehrine. Last November 10, a record 750.000 people visited the tomb. Last year, 2.25m people paid their respects there, nearly twice as many as in 1995.

His profile adorns every Turkish banknote, coin and postage stamp. By law, his portrait must hang in every public office. Every school must have a bust of Atatürk. Kemalism, the national ideology bequeathed by Atatürk, is drummed into children in every school.

Turkey and North Korea are the only countries in the world to practise a personality cult on such e scale, and where the national ideology remains a cornerstone of the state. Kemalism holds that Turkey is a secular, unitary state with a single language and a single flag. Its borders cannot be altered and neither, says the constitution, can its secularist principles.

These principles have served Turkey reasonably well over the past 74 years since Atatürk built the republic out of the wreckage of the Ottoman empire. Kemalism set a backward, rural nation on the road to becoming a modern state. However, as Turkey has developed, so the limitations of Atatürk'e legacy have become more apparent.

The confrontation between the army, the guardians of Kemalism, and Mr Necmettin Erbakan's Islamist government is proof enough of this. The army has decided there is no room for his brand of moderate Islamist politics in secular Turkey. Generals acting in the name of democracy have been putting pressure on the legitimately-elected prime minister to quit. Turks take this warning seriously: the army has staged three *coups d'etat* in 37 years.

Gen Çevik Bir, deputy chief of staff, argues that the armed forces "uphold the democratic nature of our state. The basic tenets of our democracy [are] secularism as well as individual rights and liberties within the unitary system of government. [The armed forces expect] everybody in our country to fully observe and conform to these basic principles".

Mr Erbakan, 69, qnoting Atatürk, seys "according to the constitution, sovereignty belongs to the people unconditionally. No one can impose conditions. He who is democratic must respect the nation's decision. Elections were held and the nation has indicated the solution".

Some argue thet the confrontation is not a crisis of the system but a product of Turkey's fractious party politics. Mr Erbakan, who represents just 21 per cent of the electorate, only took power because the secularist parties to the left and right are too deeply divided by personal rivalries to govern.

Others question Mr Erbakan's democratic credentials. Mr Alan Makovsky, a Turkey-watcher at the Washington Institute for Near East Policy, states that "Erbakan's relative moderation in office smacks more of opportunism, than of conviction or democratic evolution".

There are those who say Turkey now has an historical opportunity to re-evaluate Kemalism. Mr Ertuğrul Ozkök, editor of the opposition newspaper Hürriyet, wrote last month thet "withont calling it a second republic we are already in fact discussing its need. Turkey is questioning the republic proclaimed in 1923. Now is the right time to begin discussing the possibility of a second republic".

The crisis of Kemalism goes beyond the army's confrontation with Mr Erbakan. The secular state is decaying, corroded by corruption and overwhelmed by debts piled up e dysfunctional public sector. The ecooomy is adrift for lack of effective government. Inflation, under-employment and low incomes are chronic problems. Society is becoming polarised between secularists and Islamists, right and left, Kurds and Turks, Sunni Moslems and the large minority Alevi sect which practices a heterodox form of Islam.

Secular Turkey is also losing its validity as a model for the Moslem world, so the debate over secularism and democracy, the roles of Islam and the armed forces in a modern state has wider implications both for Moslem states and for western governments that fear political Islam.

However, the authorities avoid discussing these questions. President Süleyman Demirel, toppled twice as prime minister by the army and now Turkey's respected elder statesman, says: "We must strive to heal the wounds of tbe system. Attempts to replace this system with a new one would csuse heavy sacrifices." An army general was blunter, seying "Atatürk and his friends would spit" on anyone who tampered with the secular state.

Mrs Tansu Çiller, deputy prime minister, is also docking the question. As leader of the centre-right True Path party, the government's junior coalition partner, she appears more intent on remaining in power and attempting to unite tbe divided conservative movement under her leadership. She says: "Let us not politicise secularism and religion. We are not going to become a world power by wasting our time wooderiog if we are going to be another Algeria."

The debate has moved from parliament and on to the streets and into tbe media. Television devotes prime-time slots to long political debates. Demonstrators have marched peacefully in tbeir hundreds of thousands, most of them to support secularism. Eveo concerts of western classical music bave become a celebration of secularism.

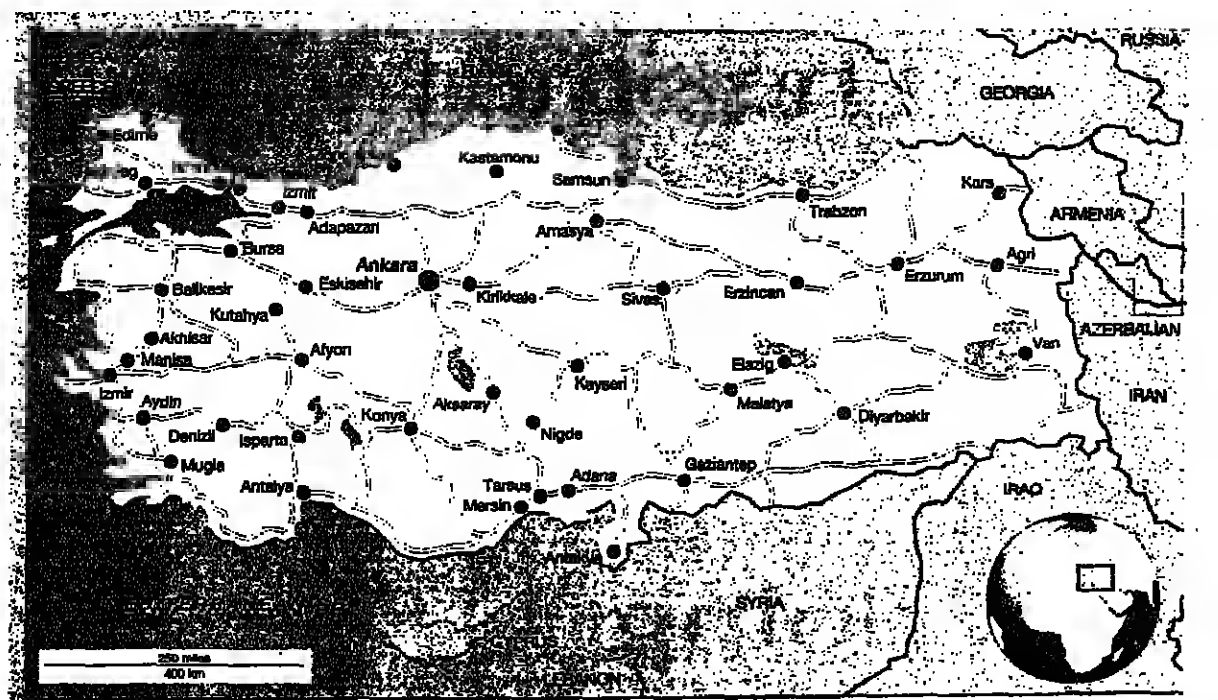
Turkey needs to reform if is to evolve into a fully modern state, where the powers of government, the armed forces and the mosque are clearly circumscribed and the rights of individuals and mioorities, such as the Kurds, are respected. But the military opposes any reform, claiming that it might lead to dissolution of the unitary state.

Turkey must also change to fulfil Atatürk's dream of becoming part of Europe. Many Turks suspect their couotry's Moslem identity will always prevent membership of a Christian EU. However, a European diplomat said: "We can accept a Moslem state [in the EU] but not a Kemalist one".

The shape a new republic might take is far from clear. Transition is likely to be slow, confusing and possibly violent. In spite of apprebeusion over the army's resumption of a direct role in politics – one newspaper columnist says Turkey is living through a "soft coup" – tbe country bas avoided unrest. There is no guarantee this will continue.

Turkey has a history of political violence. Twenty people a day died during figbting between extreme left and right wing factions in tbe 1970s. Tbe 12-year Kurdish rebellion in the south-east has cost more than 20,000 lives. The ageing Mr Erbakao is no rabble-rouser, but there are younger and more aggressive men in his Welfare party ready to take his place.

Yet Turkey also respoods well to strong leadership, as Atatürk's career shows. In the 1980s, Turgut Ozal, a former prime mloister and president, liberalised the economy and created a dynamic oew entrepreneurial class. Turkey has not yet found a leader for tbe 1990s and time is running out.



■ Area: 769,360 sq km
■ Population: 61.8 m (1995 mid-year est)
■ Language: Turkish
■ Main towns and population (1995 mid-year estimates)

Ankara (capital)	3,524,000
Istanbul	8,796,000
Izmir	3,055,000
Adana	2,123,000
Bursa	1,872,000

■ Currency: Turkish Lira (TL)
Exchange rate:
1996 average $1 = TL81,879.28
May 22 1997 $1 = TL137,750.00

■ **Form of state**
Parliamentary republic

■ **Legal system**
Based on European models and constitution of 1982

■ **National legislature**
Unicameral Meclis (parliament) of 550 members, directly elected for a five-year term

■ **Electoral system**
Universal direct suffrage over age of 18. Only parties gaining more than 10% of the national vote are eligible for seats in the parliament

■ **National elections**
December 24 1995; next elections due by December 2000

Source: EIU; Datastream

■ **Head of state**
President, elected by an absolute majority of the Meclis for a seven-year term. Currently Süleyman Demirel, elected in May 1993

■ **National government**
Parliament voted confidence in a new cabinet on July 8 1996. The government consists of a coalition between the Welfare party, led by Necmettin Erbakan, who will hold the premiership until July 1998, and the True Path party led by Tansu Çiller, who will be prime minister for two years after 1998

■ **Main political parties**
• Islamist – Welfare party (RP)
• *Centre-right – Motherland party* (ANAP), True Path party (DYP)
• Centre-left – Democratic Left party (DSP), Republican People's party (CHP)
• Nationalist right – Grand Unity party (BBP), Grand Turkey party (BTP)
• *Independent pro-Kurdish* – People's Labour party (HEP)

Economic summary

	1996 Estimate	1997 Estimate
Total GDP, nominal ($bn)	182.9	194.0
Real GDP growth (annual % change)	7.9	5.0
GDP per head ($)	2,921	3,049
Inflation, period average (annual % change in CPI)	80.4[1]	79.0
Industrial production (annual % change)	7.1	6.0
Unemployment rate (recorded, %)	7.2	7.8
Money supply, M2 (annual % change)	106	80
Foreign exchange reserves ($m)	18,436	15,000
Government expenditure (% of GDP)	26.6	26.9
Total foreign debt ($m)	79,721	82,119
Current account balance ($m)	-6,967	-7,869
Merchandise exports ($m)	22,744	24,564
Merchandise imports ($m)	-42,400	-46,640
Trade balance ($m)	-19,656	-22,077

Main trading partners (share of total trade to world, 1995)

Exports		Imports
23.3%	Germany	15.5%
7.0%	US	10.4%
6.7%	Italy	8.9%
5.3%	UK	5.1%
51.3%	EU	47.2%

[1] actual

II TURKEY

THE ECONOMY • by Metin Münir

Exception to a rule

The ability to sustain growth despite persistent inflation baffles economists

Turkey's ability to achieve impressive growth rates despite high endemic inflation is one of tha mysteries of economics.

A World Bank study covering 127 countries suggests that inflation rates of above 40 per cent affect growth rates "severely, negatively". The study found that during an "inflation crisis" – which is defined as a rate of 40 per cent or higher prevailing for two consecutive years – countries experience growth which is both significantly below the world average for the period and under the country's own growth rate prior to the outbreak of the crisis.

Turkey is an exception to this rule. "Turkey's performance over the past two decades defies the conventional wisdom that high inflation is necessarily associated with low growth," says the World Bank.

Turkey started the decade with an inflation rate of around 60 per cent, which drifted toward the current level of about 80 per cent. GNP grew by 8 per cent in 1995 and 7.9 per cent in 1996, corresponding to 92 per cent and 80 per cent inflation respectively.

The government has a growth target for this year of 4 per cent and an inflation target of 65 per cent. Both are likely to be surpassed.

"I must confess that Turkey's ability to sustain growth despite persistent inflation baffles economists," Mr Frederic Temple, head of the World Bank mission in Turkey, told businessmen in Istanbul recently. "Indeed, it even frustrates them."

Turkey seems to have chosen the Italian model for development: growing from poverty to wealth under high inflation, a weak currency, budgetary anarchy and revolving-door governments.

Growth is subject to contradictory pressures. While the private sector is dynamic, versatile, resilient and flexible, the state sector, which still dominates tha economy, is inefficient, corrupt and a huge drain on resources.

The public sector, which is overmanned and underproductive, extends from traditional services and utilities to a wide range of primary and secondary industries. It accounts for 10 per cent of employment and 25 per cent of the large-scale corporate sector's manufacturing output, according to the World Bank.

State dominance in the banking sector is even stronger. Six of tha 10 largest banks are state controlled. In 1995, over 43 per cent of total deposits in the banking system and about 38 per cent of assets were in state banks.

It is the performance of tha state sector which is, ultimately, at the root of inflation and its main cause is government overspending.

According to IMF data, at just under 30 per cent of GDP, the level of public expenditure in Turkey is 50 per cent higher than those of other middle-income countries.

In 1996, the budget deficit jumped to 8.2 per cent of GDP from 4 per cent the year before. At year-end, the domestic debt had grown by 28 per cent to nearly $30bn.

The consolidated budget deficit rose by 113 per cent in real terms to $14.95bn from $6.89bn the year before. The main reason behind this deterioration was the high real interest rates on domestic borrowing and short maturities.

The Treasury had to roll some of its maturing debt three times within the year, substantially amplifying interest payments. More than half of government revenues went towards servicing the domestic debt. Interest rates on Treasury bills were forced up by political uncertainty, with compound three-month rates going as high as 286 per cent in early 1996.

According to the Banks Association of Turkey, in April yields at dollar terms net of inflation were running at 15 per cent for three-month tenors and 23 per cent for six months.

Tha government's economic policy is focused on short-term palliatives centred around raising revenues to rednce borrowing. Tha Necmattin Erbakan-Tansu Çiller coalition tried to address the problem by introducing a serias of so-called "resource packages", which aim to raise $30bn, mostly from asset sales and privatisation, to obtain a balanced budget.

"Thank God Turkey is a rich country," Mr Erbakan said. "Wherever you turn there is $10bn to be plucked. Soon we will be able to give aid to the west."

But most items in his packages are either imaginary or wildly optimistic (like $14bn earmarked from privatisation), and the budget deficit is expected to grow even wider. TEB Research, one of Turkey's most respected research companies, foresees a budget deficit of $ 17bn in calendar 1997.

In 1996, the first year of the Turkey-EU customs union – which resulted in the elimination of virtually all tariff barriers – the trade balance deteriorated sharply. Although official figures for the whole of 1996 have not yet baen publishad, estimates indicata that exports were $24.9bn and imports $44.2bn.

For 1997, the government forecasts a 12 per cent increase in imports to $49.5bn and a 20 per cent increase in exports to $30.1bn, leaving the foreign trade daficit more or less unchanged at $19bn. It is widely predicted howaver that exports will exceed this target in parallel to GNP growth, which is expected to exceed the target of 4 per cent.

The government expects the current account deficit to decline by 18 per cent in 1997 to $6bn helped by the continuation of the boom in unrecorded exports to former Soviet states.

Tha IMF believes that "the aconomy is in a fragila situation" according to Mr Martin Hardy, the IMF assistant director in charge of reviewing the Turkish economy. He believes that strong political will is requirad to tackle tha undarlying problems: tha budget and trade deficits, endemic high inflation, the bankrupt social insurance service, the rntnous agricultural aupport programmes, and the inefficient state companies.

Earlier this month Mr Erbakan established a technical gronp to prepare a medium-term stabilisation programme – something the central bank has been urging him tn do since coming to power nearly a year ago. But tt is doubtful whether he – or any other politician in the fragmented parliament – will ever implement such reforms, which would challenge powerful entrenched interests or entail hardship for tha masses.

Officially registered foreign trade ($bn)

Year	Exports	Imports	Balance
1991	13.59	[illegible]	[illegible]
1992	14.71	22.87	[illegible]
1993	15.35	[illegible]	[illegible]
1994	18.11	23.27	[illegible]
1995	21.64	[illegible]	[illegible]

Source: [illegible]

Privatisation revenues

Year	($m)
[illegible]	[illegible]
1990	[illegible]
[illegible]	[illegible]
1992	[illegible]
[illegible]	[illegible]
1994	[illegible]
[illegible]	[illegible]
1996	[illegible]

Source: Privatisation Administration

FOREIGN INVESTMENT • by John Barham

Political instability unnerves investors

Large companies enthuse about opportunities, but self-promotion by Ankara is lacking

Turkey is the kind of country some foreign investors dream of. It has a large, growing population of mainly young people that is hitting the spending age. Incomes are growing, and with them a hunger for consumer goods.

Turkey'a economy is volatile, but the government has maintained its commitment to liberalisation. Last year, a customs union came into force between Turkey and the European Union. Wages are about ooe-sixth less than in Europe, but workers are often highly motivated. Unionisation and strikes are low.

So why has Turkey never attracted heavy inflows of foreign investmeot? It has rarely attracted very much more than $1bn a year in inward investment at a time when capital transfers from rich to developing economies havs grown sharply. Last year, when investment flows rose 19 per cent to an estimated $231.5bn, investment in Turkey remained flat.

Political instability unnerves many investors. Last year, Turkey had three governments. The present coalition is weak and ineffective. Decision-making is slow. Inflation of 80 per cent a year, stalled economic reforms, an impending energy crisis and inadequate infrastructure are further deterrents. In March, Euromoney, the business publishers, moved Turkey 14 places down to 67th position in its country risk rankings. All the leading international credit rating agencies have downgraded Turkey.

Mr Yavuz Canevi, head of Yased, the foreign investors' association, complained: "In this climate, a large number of our members had not only put a halt to new investment in Turkey but also been forced to postpone renewal and expansion investments or to suspend them completely."

He said new investments, which five years ago made up almost half ths total inward investments, fell to just 6.5 per cent in 1995, with reinvestment of locally-earned profits accounting for nearly all foreign investment.

Customs union was expected to spark off an explosion of foreign investment in Turkey. Although EU-based companies are the biggest investors in Turkey, response so far has been muted.

Yet Mr Enver Güney, head of the government's foreign investment directorate, says Turkey began freeing up tts once-autarkic economy over 15 years ago and now has one of the region's most liberal investment regimes.

He adds that delayed public sector reform means there can be little foreign participation in privatisations and infrastructure projects, the principal motors of foreign investment in emerging economies. Turkey's 10-yaar privatisation programme has raised $3.06bn in revenues, but foreigners, mainly portfolio investors, have bought only $623.6m of state assets.

Intriguingly, foreign companies and banks well-established in Turkey say it is one of their most profitable markets. Mr Christoph Urban, a Yased official and executive director at Siemens' Turkish subsidiary, says: "We have never lost a penny in Turkey. We have always had profitable years and, I must say that in comparison with European countries we are the most profitable of them all." He says Siemens' return on equity averages over 20 per cent.

Mr Urban says this record of profitability has made it easy to justify investing in Turkey. "Each year wa invest DM40m to DM60m because we believa in the country. No matter what, we have kept on investing at times of [national] bankruptcy, military take-overs, the Gulf war and the 1994 [Turkish financial] crisis. We aiways kept on investing."

Siemens has had its problems in Turkey, usually involving the public sector. This year the city of Istanbul cancelled a contract awarded to a Siemens-led consortium to install electrical systems in the new metro railway system. Last year, Ankara suspended operation of a mobile telephone company in which it held a minority stake.

An official at the International Finance Corporation, the World Bank body that finances private companies, said: "When you view Turkey from above it looks terrible. But viewing from below, from the micro, company level, it looks great."

Turkey has many sophisticated, well-managed companies and has a growing number of successful second-tier companies. It is they who are carrying out the bulk of investments in Turkey in the absence of significant foreign or public investment.

Furthermore, bad news usually travels further and faster than good news. Company headqnarters can be swayed more by newspaper reports than presentations from their own executives.

An executive at an international oil company that has suffered heavy losses for years from government price controls, continnes investing to expand his retail network to prepare for the day when Turkey liberalises the fuel market. He says: "Argentina used to be our worst market in the world. After it liberalised and privatised it became our best market. But I do not know how much longer our shareholders want to go on betting money on Turkey becoming an Argentina."

Turkey will probably not attract massive foreign investments without stabilising its economy and beginning major privatisations. But Mr Urban, who once headed the New York office of Germany's Treuhand agency that privatised eastern Germany's state companies, thinks Turkey could sell itself better. He saya: "Turkey is not promoting itself very well. You have to go where the investors are, yon have to explain the situation, you have to find good examples."

Inward investment $m

Year	Inflows
[illegible]	[illegible]
1988	488
[illegible]	[illegible]
1990	1,005
[illegible]	[illegible]
1992	1,242
[illegible]	[illegible]
[illegible]	830
[illegible]	[illegible]
1996*	573

* First-half only

Source: General Directorate of Foreign Investment

POLITICS • by John Barham

Slow death for a coalition

The army has brought the Erbakan government to a standstill

Mr Necmettin Erbakan's government ceased to function as an effective administration on the evening of February 28. After an eight-hour meeting, the National Security Council (NSC) handed down a list of 18 "recommendations" warning that failure to comply would bring specified "sanctions".

The council is dominated by the military. Governments invariably obey its recommendations to the letter. It demanded a crackdown on Islamist organisations and implementation of eight-year compulsory education that would reverse the growth in state-run religious schools.

The government's authority began seeping away immediately. The military and its secularist supporters expected Mr Erbakan would either comply and lose legitimacy in the eyes of his Islamist supporters or simply quit. No civilian leader has ever defied the army. Mr Erbakan said plaintively: "In Turkey, governments are formed in parliament, not in the National Security Council." However, be has chosen a middle path, and is attempting to equivocate.

The government has taken no major decision of its own since that evening. Instead, it is suffering a slow death by a thousand rumours. Mrs Tansu Çiller, deputy prime minister and leader of the centre-right True Path party, the govarnment'a coalition ally, said: "There are whispers around us asking when the next coup is going to take place."

While most of Turkey's secularists are relieved that the army has blocked Mr Erbakan, many are embarrassed at supporting what one newspaper columnist called a "soft coup". The generals have toppled three governments in the past 37 years. Few are sure what will happen next.

Mr Mümtaz Soysal, a militant secularist and left-wing MP, said the "first stage is to get rid of [Mr Erbakan], and that is what the military is indirectly doing. Then [we should] see to it that the politicians create a more secular-oriented government. Leaders should accept their responsibility".

However, efforts hy True Path rebels to weld a new government out of the current fractious parliament are not succeeding. The centre-right is divided between two bitterly opposed parties, as is the centre-left. Although these four parties hold most of the seats in parliament, their leaders have not overcome their personal rivalries to form a pro-secularist government.

As a result, Mr Erbakan's Welfare party, which took only 21 per cent of the votes in the December 1995 elections, is parliament's largest party. He hecame prime minister last July after a minority alliance between True Path and its rival centre-right Motherland party collapsed after only three months.

The media and business elite, with army support, are calling for a temporary technocratic government to take over for long enough to prepare the country for fresh elections after rewriting the election laws that would end the division on the right and left and prevent Welfare from taking more seats.

Although Mr Erbakan never began implementing his Islamist agenda – except for an abortive foray into international affairs – secularists say he must be stopped.

However, tha causes of Welfare's ascendancy – economic instability, political corruption, inequality, social dislocation caused by urbanisation – remain. Welfare, with its image of incorruptibility, has capitalised most on this discontent. Opinion polls show no decline in support for Welfare aince it came to power. It still ranks first with 25 per cent of voter intentions, while support for other parties fluctuates.

Tha economy posted strong growth last year – for which Welfare claims principal credit. But it has not cut high inflation, raised low wages or cut under-employment. Yet a steady stream of political scandals, most of them involving secnlarist politicians, has eroded support for mainstream parties.

Although parliament has cleared Mrs Çiller of three corruption charges – brought hy Mr Erhakan before they formed their coalition – her integrity is seriously compromised.

A bizarre incidant last November revealed extensive and long-standing links between the security forces, politicians and organised crime. A senior police officer, a gangster and his girlfriend were killed when a limousine they were travelling in together crashed. A True Path MP in the car survived. The ensuing scandal brought down Mrs Çiller's interior minister, also a former police chief.

A parliamentary committee of enquiry discovered that previous governments used gangsters as hired assassins tn eliminata "atate enemies". Mr Abdullah Çatli, the gang leader killed in the car crash, was closely involved in far-right politics, and was a wanted heroin smuggler.

MPs found that haroin smugglers sometimes work closely with the aecurity forces in the Kurdish south-east of the country, where the army is fighting guerrillas of the Kurdistan Workers' party (PKK). The committee even found evidence that police were involved in gangland killings.

But the government cut short the committee's work, obstructed attempts to lift MPs' immunity from prosecution, and has only brought charges against a few low-ranking policemen. The government lashed out against the media, which investigated the scandal, threatening to punish reporting of "false news".

Western drug control officials worry that tbe narcotics trade, worth billions of dollars a year, is infecting the state. Police aeized over four tonnes of heroin in 1996, hut trafficking is growing. About 80 per cent of Europe's heroin transits Turkey.

In January, a German judge trying three heroin smngglers arrested at Frankfurt airport said they bad "excellent relations" with the government and "personal contacts" with ministers, which had aeriously complicated investigations.

However, these scandals have hegun mobilising public opinion, in spite of an abundance of controls and restrictions on free speech, offering proof of tbe vitality of Turkey's democracy. In February, ordinary people across the country turned off the lights in their houses for a minute at 9pm in protest at corruption. Thousands took to the streets in generally peaceful demonstrations demanding more democratisation.

The media and the streets, rather than in parliament have become the centres of a debate over the country's future, on how secularism and Islam can be reconciled. Although the army's growing role in politics has created a sense of unease, it has not prevented – indeed, it has brought added urgency – to the discussion of the basis for a new republic as Mr Erbakan's coalition limps on.

THE ARMY • by John Barham

Holding people's trust

Some observers worry that the military's ideology is anachronistic, perhaps paranoid

An opinion poll in February to find Turkey's most trustworthy institutions ranked the army first, with 90 per cent support; two-thirds of respondents said they distrusted the government. The army may have seized power from elected governments three times in the past 37 years, but civilians and soldiers alike still see tbe armed forces as Turkey's ultimate guarantor of national unity, democracy and law and order.

Last December, Gen Ismail Karadayi, chief of the general staff, said the armed forces would ensure that Turkey remains "a democratic and secular state [based on the rule] of law. The armed forces are dedicated to Atatürk's nationalism, and are the untiring guardians of his reforms and principles".

Gen Karadayi and his supporters on both the right and left see little irony in overriding Mr Necmettin Erbakan's elected government to save democracy and defend an ideology formulated 70 years ago. Mr Mümtaz Soysal, a left wing MP and militant secularist, said: "The army is the founder of the state. The republic has military blood. This is not an ordinary republic, it is a Jacobin republic."

Like many secularists, Mr Soysal and the generals equate secularism with democracy and political Islam with obscurantist dictatorship. Brig Gen Kenan Deniz, head of the general staff's internal security department, says "eliminating fundamentalism is a matter of life and death for Turkey".

Howaver, observers worry that tha military's view of its place in society and its ideology has grown anachronistic, even somewhat paranoid. Mr Fehmi Koru, chief columnist of the moderata Islamist newspaper Zaman, says "the army wants to recreate the atmosphere of the 1930s. But there is no place for a powerful army in a modern society".

Mr Mehmet Ali Birand, an influential television journalist and author of two books on the military, says: "The army really believes that radical Islam is as significant a threat as tha [Kurdistan Workers' party (PKK)]. I get the feeling the army is not living in the same country."

He disagrees that Turkey's Islamist movement is a monolith that must be destroyed. He argues that it includes moderates and democrats as well as extremists.

Some Islamists say the army's tough anti-Islamist line is putting its discipline at risk. Mr Erol Yarar, chairman of Müsiad, an Islamist business association, says: "If the debate continues like this, the army will lose ground in society. A small number of officers will mean nothing witbout an army. The people will not question the army, but the people who control it."

Some independent analysts say about 20 per cent of the ranks have Islamist sympathies, abont the same proportion as in Turkish society. Every year tbe army purges suspected Islamist officers, making little distinction between devout Moslems and political activists. However, few helieve the army's Ataturkist esprit de corps will splinter.

Although attention has focused on the army's response to internal political threats, the generals justify a large military establishment hy pointing to perceived external threats.

Turkey is on bad terms with all its immediate neighbours, with tha exception of the Turkic former Soviet republic of Azerbaijan.

Relations are particularly bad with Greece. Fighter aircraft frequently challenge each other to dogfights. The military's assessment of Greece, a Nato ally, is bizarre. Admiral Mustafa Ozbey, a senior general staff officer, claims Athens has an axpansionist foreign and security policy that is driven by the "Great Idea" of restoring the Byzantine empire that vanished over 500 years ago.

Other Nato countries are cutting military spending and streamlining defence industries, but Turkey's armed forces are under no such restrictions. Turkey has the second-higgest army in Nato after the US and is one of the world's higgest arms buyers.

Wealth and power have also brought corruption. Commentators say officers may be far less corrupt than civilian politicians, but the taint of corruption is undermining their integrity. The army refused to allow officers to testify before a parliamentary inquiry investing links hetween organised crime, the security forces and politicians.

However, the generals are aware of the limits to their authority. Mr Birand says thay have no hunger for power, preferring to take over government for short periods to quickly rectify the politicians' errors. Furthermore, they understand that a post-Cold War world is less tolerant of old-style coups d'etat.

Instead of delivering an ultimatum to Mr Erbakan to quit, they used a scheduled meeting of the National Security Council, a body established under the constitution, to issue "recommendations" for Mr Erbakan to move against Islamist organisations. The generals have mobilised secularist politicians to force Mr Erbakan to comply or resign.

The generals also claim to be abova politics, and reject critical discussion of their role in politics and society. However, the army's relnctance to relinquish a leading rola in society could threaten the Ataturkist vision of Turkey becoming a modern European state. Ms Pauline Green, leader of the European parliament's powerful Socialist block, told Gen Bir: "We have difficulties with a system where an unelected military could apparently dictate terms to an elected government."

FOREIGN POLICY • by John Barham

Party and ministry in competition

Ankara has much work to do if it is to achieve aim of full EU membership

Tansu Çiller: bid to push Turkey to the front of the queue backfired

Turkey's foreign policy was once immune to political upheavals. However, since Mr Necmettin Erbakan became prime minister last June, his Welfare party, the foreign ministry and the armed forces have each developed their own competing – and aometimes conflicting – policies.

Mr Erbakan departed from Turkey's traditionally pro-western alignment by developing ties with the Moslem world, to the alarm of western governments. At the same time, the generals began deepening their military and intelligence relationship with Israel, warning Mr Erbakan they would not tolerate rapprochement with Iran.

Meanwhile, attempts by Mrs Tansu Çiller, deputy prime minister and foreign minister, to push Turkey to the front of the queue for European Uoion membership backfired when the US rejected ber threat to veto Nato expansion if Turkey were excluded from the EU's list of countries slated for future membership.

Statements in February by Mr Wilfred Martens, president of the centre-right European People's party in the European parliament, that Turkey was "not acceptable" for EU membership, strengtbened Turkish suspicions of European anti-Moslem prejudice. Mr Onur Oymen, foreign ministry director-general, warned of a "cultural, religious iron curtain" replacing the iron curtain that had divided western and eastern Europe.

Still, EU foreign ministers agreed in April tbat Turkey's membership application would be jodged on the same criteria as other countries. However, Turkey, whicb applied and was rejected in 1987, may have a long walt. These criteria include tough economic targets, respect for human rights, and a fully functioning democracy. Many Turks believe tbeir country's large population (second in Europe to Germany) and Moslem identity could still prevent it from ever joining.

Member governments say ao EU-Turkey customs union that began in January 1996 sbould be the basis of a special relationship prior to eventual EU membership. But Mrs Çiller said "either Turkey [becomes] a full member or she will not hang on as a secood-rate member". Greek vetoes on EU aid and a surge in Turkey's trade deficit with Europe has led to more disillusionment with the customs union.

Friction with Turkey's old rival, Greece, continues. Last year, they nearly came to blows over two uninhabited Aegean islets. Turkey bas warned it would declare war if Greece increased its territorial waters in the Aegean from six to 12 miles, as it is legally entitled to. And, in January, Turkey threatened to attack Cyprus after the Greek-Cypriots ordered Russian air defence missiles.

Ankara has stated that it might annex Turkish northern Cyprus, wbicb it bas occupied since 1974, if tbe southern Greek-Cypriot government joins the EU. Negotiations on Cypriot accession begin next year. European diplomats say Cyprus cannot join while it is divided, hoping the lure of membership will speed reunification and ease tension between Greece and Turkey.

Relations between Athens and Ankara did improve after Mr Tbeodoros Pangalos, the Greek foreign minister, sprang to Turkey's defence following Mr Martens's commeots. The two countries agreed to an EU initiative to create a commission of non-governmsnt "wise men" to report on bilateral problems. Yet the Turkish general staff still sees an expansionist Greece as Turkey's principal strategic threat.

The secularist military played a discreet role in foreign affairs when policy conformed to Atatürkist principles. Now it bas taken a more prominent role by forging ahead with an indapendent pro-Israel policy, to Welfare's fury.

Israeli military aircraft crews train in Turkey. Israel Aircraft Industries won a $650m contract to upgrada Turkish Pbantom figbter bombers. The generals want to buy arms from Israel to overcome a de facto arms embargo imposed by the US.

Turkey and Israel are also developing a commercial relationship. Turkey ratified a free trade agreement to gradually eliminate trade barriers by 2000. Bilateral

Continued on Page IV

ISLAMIC BUSINESS • by John Barham

Prospering under Welfare

Interest-free lending continues to be a niche market for Islamic finance houses

If Islam has emerged as a powerful new political force in Turkay, its influence is also growing in the corporate world. Fifteen years ago, there were few, if any, such groups. Now, there are thousands of companies claiming to operate along Islamic lines.

Although it is hard to define what Islamic business practice is, beyond the prohibition on usury and an emphasis on ethics, many observers say the sector is growing rapidly. Islamic companies still tend to be small, but they have benefited strongly from the rise to power of Welfare, the ruling Islamist party.

Welfare has strengthened Islamic businesses by dispensing central and local government patronage that was previously denied them. In Istanbul, governed since 1994 by a Welfare mayor, small Islamic engineering, service and contracting concerns have won city business that once went the way of big local or international groups.

Müsiad, an Islamist business association founded in 1990, now claims 3,000 members. Last year, it had 2,200. Most of these companies, are small or medium businesses based in the Anatolian heartland, operating in low to medium technology sectors such as textiles, construction or furniture-making.

The growth of these companies alarms the army. In February, the military-dominated National Security Council included as part of its anti-Islamist "recommendations" to the government a stipulation that "finance organisations under the control of religious sects should be followed closely and prevented from becoming economic forces".

Mr Ayhan Apak, a director of Ihlas Holding, a big Islamic conglomerate, is irritated that his company should be considered a nest of fundamentalism. He says the group "has no political connotation, no cultural connotation. This is business. You have to work with the rules of the society you live in. The owners of Ihlas are good Moslems, and this is a plus in the eyes of the Turkish people".

Mr Vedat Akgiray, a US-trained consultant at Ihlas, says: "When people say a company is Islamic, all they mean is that the owner is a practicing Moslem. But business is business. You still have to sell, package, market and produce."

Ihlas is well regarded by financial analysts and is growing fast, although no faster than many conventional companies. The company reported revenues up 51 per in dollar terms in 1996 to $714.6m, and net income up by one-third to $13.3m.

Yet bankers report that Ihlas has managed to sew up business deals more easily than it could in the past, thanks to its good government connections. It has taken a leading role in the privatisation of the state electricity distribution system with access to cheap financing from Islamic banks.

However, an incentive package it negotiated with the government to set up a car factory with South Korea's Kia group unravelled because of strong opposition from the European Union. Brussels argued that the incentives violated Turkey's customs union with the EU.

Yet Ihlas has always tried to stay on the right side of the government of the day, whatever its ideology. Mr Apak says the policy of Türkiye, an Ihlas-owned newspaper, is to print only good news and avoid criticising the government.

Few groups have risen faster than Kombassan Holding, based in the city of Konya, a Welfare bastion. It was only founded in 1995 but grew rapidly into a conglomerate based on food, construction, light industry and textiles. It has attracted the attentions of the regulators at Ankara's Capital Markets Board, which investigated Kombassan for suspected accounting irregularities.

While some observers say its acquisition in March of Petlaş, a state-owned tyre company for $35.7m, was politically-driven, the deal may backfire. Successive governments have privatised Petlaş, only to take it back whan the company's new owners failed to pay.

Islamic finance is still a niche market. Bankers estimate that interest-free finance houses hold no more than 3 to 5 per cent of the financial system's assats. Although business is growing, they are probably expanding no faster than conventional banks.

Al Baraka Türk, founded in 1985 after the government lifted restrictions on Islamic finance, is Turkey's biggest non-interest bank. It is owned by Turkish and Gulf investors led by the Saudi Al Baraka banking group. It posted a 19 per cent growth in assets last year to $899.3m, and a 26 per cent rise in net incoma.

Companies can either lease equipment or borrow money, paying a large fee to allow for inflation and a margin for Al Baraka. Fees vary between 9 and 13 per cent depending on the client and the deal Al Baraka is backing. Depositors share in tha profits and losses of these operations through "participation accounts".

Al Baraka places no funds in interest-bearing instruments, such as high-yielding government securities that became the road to riches for conventional banks. Although this has led to lower returns for their clients, there is still a steady supply of investors motivated more by religious concerns than financial goals.

There are more than half a dozen interest-free finance houses offering a growing range of services. Even some big banks take the Islamic market seriously. Garanti Bankasi, one of Turkey's top five banks, offers interest-free banking to clients provided they also keep large balances that earn no interest.

Yet international bankers are wary of supporting Islamic businesses. Syndicating their loans in western financial markets is more difficult than for conventional companies. Furthermore, these companies could suffer if they lost their political connections. A consultant says many of them also have weak management, are ignorant of modern technology, and rely on captive markets of the devout or the poor who are unable to afford better quality products.

A fairer assessment would probably conclude that Islamic businesses have many of the strengths and weaknesses of conventional Turkish companies. The more successful Islamic businesses tend to be flexible, tightly-controlled and highly diversified, with fat margins. Yet they are still reliant on political favours, lack focus, and are controlled by ageing founders rather than professional managers.

Competition over policy

Continued from Page III

trade was only $448m last year, although Israeli tourists spend another $250m to $300m a year in Turkey. Jerusalem expects trade flows to exceed $2bn by 2000. The military even forced Mr Erbakan to see Mr David Levy, Israel's foreign minister, when he visited Ankara in April.

Quixotically, Mr Erbakan is trying establish Turkey as leader of the Moslem world. Last year, he created the "Developing Eight" – or D-8 – group of Moslem countries that comprises Iran, Egypt, Indonesia, Pakistan, Nigeria, Bangladesh and Malaysia as a counterweight to the rich world's G-7 grouping.

Energy is an important foreign policy issue because energy consumption is growing by 10 per cent a year. Turkey imports much of its enargy, so the government wants good relations with Iran in spite of military accusations that Teheran exports "Algeria-type terror to Turkey" and supports Kurdistan Workers' party (PKK) guerrillas.

Although Turkey expelled the Iranian ambassador for making a speech in February calling for an Islamic republic in Turkey, it is going ahead with a gas pipeline to import $23bn of natural gas under an agreement Mr Erbakan signed last year.

This has angered Washington, which is expected to block international financing for the pipeline. The US also worries that an increasingly volatile Turkey could increase the region's instability. Mrs Madeleine Albright, US secretary of state, has said "we feel it vital that Turkey remain a secular state". While the US has treated Welfare ministers to glacial receptions in Washington, it has urged the EU to "embed" Ankara in European institutions.

Turkey imports most of its natural gas from Russia, a regional rival. However, domestic turmoil has undermined attempts to increase Turkey's influence in the oil-rich Caucasus and central Asia. A consortium of international oil companies, including Turkey's TPAO, must soon decide where to lay strategic oil pipelines linking Caspian Sea oilfields to western markets.

Turkey wants the principal pipeline to cross its territory, expecting it to yield rich contracts for Turkish construction companies, transit fees for the treasury, and political influence throughout the region. However, the Turkish route is only one of seven under consideration by the consortium developing the reserves.

Markets, small shops and money-changers make up a very large and growing 'grey economy' which is seen as especially important in providing jobs for the poor who would otherwise be unemployed

HUMAN RIGHTS • by John Barham

Violations still common

Campaigners say reforms are inadequate and enforcement is weak

Serious hnman rights violations continue in Turkey, in spite of heavy foreign pressure – particularly from the European Union – to halt abuses. The Turkish Human Rights Association's (IHD) statistics show some improvement, but violations are still common.

Tha government says it deplores violations as much as local and foreign campaigners. Mrs Tansu Çiller, deputy prime minister and foreign minister, said in March: "From now on there will not be any missing persons in this country. This terminology will be out of date in Turkey. Our struggle against terrorism will continne with determination, but in full conformity with human rights."

However, between January and March this year the IHD reported 32 cases of death from torture or while victims were in police custody. It counted 24 cases of "unknown killings", assassinations of opposition figures which rights groups believe are carried out on behalf of the security services. In March, there were 164 political prisoners in jail.

Women's groups have held weekly street protests in Istanbul for over two years, demanding information about relatives they say were abducted by the security forces. Torture remains common. Human Rights Watch says torture, especially by anti-terror police units, "is neither spontaneous nor rogue. This unit has methodically incorporated torture and abuse into its daily operations utilising special equipment".

In 1995, Ankara amended the constitution and anti-terrorist legislation used to silence discussion of the Kurdish question. This year the government cut incommunicado detention periods to between seven and 10 days.

However, human rights campaignars say the reforms are inadequate and that enforcement is weak because courts do not act against abuses by tha security forces. General Çevik Bir, depnty chief of staff, said human rights "should not be abused for political purposes, to polarise society or dismember the country".

Violations are particularly severe in the south-east of the country, where the army is fighting a 12-year war against guerrillas of the separatist Kurdistan Workers' party (PKK).

Turkey has more than 150 laws and regulations concerning freedom of expression. They are freqnently used against Kurds and left-wing activists. It is an offence to insult the military or Kemal Atatürk, founder of tha modern Turkish state. It is illegal to provoke ethnic, regional or religions hatred. Calling for the division of Turkey is a terrorist offence. A state security court prosecutor has even demanded the death penalty for two Kurds who cut down the Turkish flag and hoisted the PKK flag at a party congress last year.

The government has mounted a legal war of attrition against human rights organisations. Last year, it demanded the closure of medical treatment centres for torture victims. Now it is trying to starve the IHD of funds, including EU grants. It recently asked an Ankara court to close down the association altogether.

Wastern governments valna Turkey's strategic importance and want it to remain integrated in western institutions. Yet politicians are also under pressure from public opinion for a more aggressive stance towards Turkey.

The US Congress has imposed a de facto arms embargo on Turkey, primarily in protest at human rights violations. However, Mr Nicholas Burns, State Department spokesman, said: "Turkey should be more fully integrated into Europe despite the fact that there are problems on human rights."

The European Parliament has suspended aid except to organisations promoting human rights and democracy. EU member-governments say resolution of the Kurdish issue and full respect for human rights are basic criteria for accession to the Union.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.3971	-0.083	865 - 076	19.4664	19.2932	18.3438	3.3	19.2556	2.8	-	-	100.1
Belgium	(BFr)	56.8905	-0.2353	404 - 406	57.0910	56.6210	56.7355	3.3	56.4205	3.3	54.9905	3.3	103.1
Denmark	(DKr)	10.4958	-0.0424	909 - 006	10.5341	10.4451	10.4703	2.9	10.4178	3.0	10.1963	2.9	105.8
Finland	(FM)	8.3154	-0.0276	067 - 240	9.3460	8.2850	-	-	-	-	-	-	82.2
France	(FFr)	9.2957	-0.0342	814 - 899	9.3324	9.2390	8.2615	3.1	9.2138	3.1	8.391	3.2	106.0
Germany	(DM)	2.7559	-0.0118	545 - 573	2.7666	2.7413	2.7483	3.3	2.7323	3.4	2.662	3.4	104.5
Greece	(Dr)	440.152	-1.31	845 - 458	441.558	437.747	-	-	-	-	-	-	65.0
Ireland	(I£)	1.0782	+0.0002	771 - 792	1.0792	1.0754	1.0783	-0.1	1.0773	0.3	1.0703	0.7	98.1
Italy	(L)	2715.28	-9.84	328 - 728	2728.05	2702.63	2717.18	-0.8	2718.56	-0.5	2704.68	0.4	76.4
Luxembourg	(LFr)	56.8905	-0.2353	404 - 406	57.0910	56.6210	56.7355	3.3	56.4205	3.3	54.9905	3.3	100.1
Netherlands	(Fl)	3.0984	-0.0123	969 - 998	3.1095	3.0826	3.0899	3.3	3.0718	3.4	2.9938	3.4	102.9
Norway	(NKr)	11.4823	-0.0272	747 - 899	11.5302	11.4145	11.4518	3.2	11.3923	3.1	11.1463	2.8	98.2
Portugal	(Es)	278.177	-0.669	010 - 343	279.100	276.854	278.027	0.8	277.652	0.8	-	-	93.9
Spain	(Pta)	232.444	-0.652	348 - 540	233.210	231.350	232.284	0.8	231.844	1.0	229.089	1.4	77.9
Sweden	(SKr)	12.3756	-0.0062	657 - 855	12.4332	12.3119	12.3541	2.1	12.3061	2.2	12.1121	2.1	84.4
Switzerland	(SFr)	2.2942	-0.0113	927 - 957	2.3030	2.2828	2.2849	4.9	2.2657	5.0	2.1818	4.9	106.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	98.1
Ecu	-	1.4138	-0.0047	127 - 148	1.4188	1.4067	1.4111	2.2	1.4052	2.4	1.3781	2.5	-
SDR†	-	1.174718	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6291	-0.0051	286 - 296	1.6332	1.6222	-	-	-	-	-	-	-
Brazil	(R$)	1.7455	-0.0029	445 - 465	1.7483	1.7374	-	-	-	-	-	-	-
Canada	(C$)	2.2387	-0.0028	376 - 398	2.2485	2.2293	2.2325	3.4	2.221	3.2	2.1793	2.7	84.8
Mexico	(New Peso)	12.8428	-0.0158	347 - 508	12.8508	12.7691	-	-	-	-	-	-	-
USA	($)	1.6301	-0.0044	296 - 306	1.6335	1.6225	1.6292	0.7	1.6274	0.7	1.6192	0.7	102.0
Pacific/Middle East/Africa													
Australia	(A$)	2.1288	+0.0351	274 - 301	2.1337	2.0874	2.1282	0.3	2.1263	0.5	2.1162	0.6	83.8
Hong Kong	(HK$)	12.6170	-0.0283	123 - 217	12.6417	12.5533	12.6111	0.6	12.6005	0.5	12.5657	0.4	-
India	(Rs)	58.2517	-0.2063	930 - 103	58.4010	58.0890	-	-	-	-	-	-	-
Israel	(Shk)	5.5350	-0.0181	281 - 418	5.5465	5.5126	-	-	-	-	-	-	-
Japan	(Y)	188.106	-1.39	991 - 220	189.200	187.340	187.046	6.8	135.036	6.5	176.221	8.3	130.9
Malaysia	(M$)	4.0777	-0.0127	756 - 798	4.0857	4.0636	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3592	+0.0053	576 - 608	2.3656	2.3458	2.359	0.1	2.36	-0.1	2.3672	-0.3	112.8
Philippines	(Peso)	43.0021	-0.118	563 - 478	43.0478	42.9563	-	-	-	-	-	-	-
Saudi Arabia	(SR)	9.1138	-0.0166	117 - 159	6.1263	6.0855	-	-	-	-	-	-	-
Singapore	(S$)	2.3343	-0.0055	328 - 358	2.3386	2.3234	-	-	-	-	-	-	-
South Africa	(R)	7.2898	-0.0164	851 - 945	7.3001	7.2558	-	-	-	-	-	-	-
South Korea	(Won)	1452.26	-4.9	165 - 286	1455.12	1446.38	-	-	-	-	-	-	-
Taiwan	(T$)	45.3576	-0.0924	029 - 122	45.4505	45.1542	-	-	-	-	-	-	-
Thailand	(Bt)	41.8121	-0.1783	178 - 064	42.0320	41.3640	-	-	-	-	-	-	-

† Rates for May 22. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8993	-0.0188	965 - 021	11.9330	11.8830	11.8768	2.3	11.8281	2.4	11.5793	2.7	102.8
Belgium	(BFr)	34.9000	-0.05	600 - 200	34.9890	34.8560	34.825	2.6	34.67	2.6	33.93	2.8	103.0
Denmark	(DKr)	6.4387	-0.0086	377 - 397	6.4585	6.4289	8.4269	2.2	6.4022	2.3	6.2902	2.3	105.0
Finland	(FM)	5.1012	-0.0031	974 - 049	5.1199	5.0946	5.0893	2.8	5.0649	2.8	4.9567	2.8	81.6
France	(FFr)	5.6964	-0.0058	955 - 972	5.7085	5.6874	5.6847	2.5	5.662	2.4	5.5469	2.8	105.5
Germany	(DM)	1.6907	-0.0026	903 - 910	1.6980	1.6880	1.687	2.8	1.6793	2.7	1.6424	2.8	103.9
Greece	(Dr)	270.015	-0.075	910 - 120	270.560	269.250	270.9	-3.9	272.44	-3.6	278.715	-3.2	64.7
Ireland	(I£)	1.5120	-0.0043	110 - 130	1.5165	1.5065	1.5113	0.5	1.5108	0.3	1.5075	0.3	-
Italy	(L)	1665.73	-1.53	500 - 643	1670.00	1663.35	1667.62	-1.4	1670.32	-1.1	1672.6	-0.4	76.1
Luxembourg	(LFr)	34.9000	-0.05	800 - 200	34.9890	34.8560	34.825	2.6	34.67	2.8	33.93	2.8	103.0
Netherlands	(Fl)	1.9007	-0.0024	004 - 010	1.9062	1.8979	1.8966	2.6	1.888	2.7	1.8478	2.9	102.6
Norway	(NKr)	7.0439	+0.0023	414 - 464	7.0750	7.0095	7.0266	2.9	7.0011	2.4	6.8754	2.4	87.5
Portugal	(Es)	170.650	+0.05	600 - 700	171.000	170.500	170.635	0.1	170.57	0.2	169.26	0.8	94.3
Spain	(Pta)	142.585	-0.015	580 - 610	142.920	142.490	142.595	0.0	142.519	0.2	141.26	0.9	77.8
Sweden	(SKr)	7.5920	+0.0167	882 - 957	7.6191	7.5784	7.5826	1.5	7.562	1.8	7.4675	1.6	84.1
Switzerland	(SFr)	1.4074	-0.0031	069 - 079	1.4148	1.4054	1.4025	4.1	1.3928	4.1	1.3471	4.3	105.7
UK	(£)	1.6301	-0.0044	298 - 306	1.6335	1.6225	1.6292	0.7	1.6274	0.7	1.6192	0.7	98.1
Ecu	-	1.1530	+0.0007	525 - 535	1.1548	1.1506	1.1544	-1.5	1.1578	-1.7	1.1754	-1.9	-
SDR†	-	0.71684	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9994	-0.0004	994 - 994	0.9984	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	1.0708	+0.0011	705 - 711	1.0711	1.0702	-	-	-	-	-	-	-
Canada	(C$)	1.3734	+0.002	731 - 736	1.3773	1.3719	1.3704	2.8	1.3649	2.5	1.3459	2.0	84.7
Mexico	(New Peso)	7.8785	+0.0115	760 - 810	7.8810	7.8760	7.987	-16.5	8.1885	-15.7	9.1835	-16.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	102.9
Pacific/Middle East/Africa													
Australia	(A$)	1.3059	+0.025	055 - 063	1.3063	1.3055	1.3063	-0.4	1.3064	-0.2	1.3054	0.0	97.6
Hong Kong	(HK$)	7.7400	+0.0035	395 - 405	7.7405	7.7370	7.741	-0.2	7.7424	-0.1	7.7525	-0.2	-
India	(Rs)	35.7350	-0.03	100 - 600	35.8400	35.7550	35.825	-3.0	36.11	-4.2	33.916	5.1	-
Israel	(Shk)	3.3955	-0.0013	923 - 986	3.3988	3.3936	-	-	-	-	-	-	-
Japan	(Y)	115.395	-0.54	360 - 430	116.210	115.130	114.84	5.9	113.735	5.8	108.835	5.7	131.2
Malaysia	(M$)	2.5015	-0.001	010 - 020	2.5035	2.5010	2.5038	-1.1	2.5079	-1.0	2.5248	-0.9	-
New Zealand	(NZ$)	1.4473	+0.0075	468 - 478	1.4478	1.4482	1.4481	-0.7	1.4505	-0.9	1.4606	-0.8	-
Philippines	(Peso)	26.3800	-	600 - 000	26.4000	26.3600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	504 - 507	3.7507	3.7504	3.7509	-0.1	3.7513	-0.1	3.7542	-0.1	-
Singapore	(S$)	1.4320	+0.0005	315 - 325	1.4331	1.4310	1.4304	1.4	1.4263	1.8	1.4045	1.8	-
South Africa	(R)	4.4720	+0.002	705 - 735	4.4735	4.4630	4.5115	-10.6	4.589	-10.5	4.887	-9.3	-
South Korea	(Won)	890.900	-0.8	800 - 000	891.300	890.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.8250	+0.015	000 - 500	27.8500	27.8000	27.8256	0.0	27.827	0.0	27.8313	0.0	-
Thailand	(Bt)	25.8500	-0.04	000 - 000	25.8250	25.4550	25.7112	-2.9	25.835	-2.9	26.405	-2.8	-

† SDR rate per $ for May 22. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 22: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	-	-	-	-	-	-	-	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.10	-	4.75
week ago	-	-	-	-	-	-	-	-
Germany	3	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	-	-	-	-	-	-	-	-
Ireland	6	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
week ago	-	-	-	-	-	-	-	-
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.25	6.75	6.78
week ago	-	-	-	-	-	-	-	-
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	2.90
week ago	-	-	-	-	-	-	-	-
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	-	-	-	-	-	-	-	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	-	-	-	-	-	-	-	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	-	-	-	-	-	-	-	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	-	-	-	-	-	-	-
US Dollar CDs	-	5.46	5.59	5.72	9.01	-	-	-
week ago	-	-	-	-	-	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	-	-	-	-	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	-	-	-	-	-	-	-

§ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 23	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	3¼ - 3	[illegible]
Dutch Guilder	[illegible]	[illegible]	3¼ - 3	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	1½ - 1⅜	[illegible]	1½ - 1¼	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible]	3⅛ - 3	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	4½ - 4⅜	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.19	94.18	+0.01	94.19	94.17	90,133	441,063
Sep	93.96	93.97	+0.02	94.00	93.95	99,931	468,193
Dec	93.71	93.73	+0.02	93.75	93.71	140,276	354,552

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.83	94.82	-0.01	94.84	94.91	629	4,893
Sep	94.57	94.56	+0.01	94.57	94.56	117	4,961

All Open Interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 23		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.45	16.32	4.844	1.895	4773	5.446	20.19	489.0	408.6	21.75	4.033	1.758	3.935	2.865	330.8	2.485
Denmark	(DKr)	54.20	10	8.947	2.626	1.027	2587	2.952	10.94	265.0	221.5	11.79	2.186	0.953	2.133	1.553	179.2	1.347
France	(FFr)	91.27	11.30	10	2.968	1.161	2924	3.337	12.37	299.9	250.3	13.33	2.471	1.077	2.411	1.756	202.6	1.523
Germany	(DM)	20.64	3.808	3.369	1	0.391	985.2	1.124	4.166	100.9	84.34	4.490	0.832	0.363	0.812	0.591	68.25	0.513
Ireland	(I£)	52.77	9.735	8.913	2.556	1	2519	2.974	10.65	258.0	215.6	11.48	2.128	0.928	2.077	1.512	174.5	1.311
Italy	(L)	2.095	0.387	0.342	0.102	0.040	100	0.114	0.423	10.24	8.561	0.456	0.085	0.037	0.082	0.060	6.928	0.052
Netherlands	(Fl)	19.36	3.388	2.997	0.890	0.348	976.4	1	3.706	89.78	75.02	3.994	0.740	0.323	0.723	0.526	60.71	0.456
Norway	(NKr)	49.55	9.141	8.087	2.400	0.939	2365	2.698	10	242.3	202.4	10.78	1.998	0.871	1.950	1.420	163.8	1.231
Portugal	(Es)	20.45	3.773	3.338	0.991	0.388	979.1	1.114	4.128	100	83.56	4.449	0.825	0.359	0.805	0.586	67.62	0.508
Spain	(Pta)	24.47	4.515	3.995	1.186	0.464	1168	1.333	4.940	119.7	100	5.324	0.987	0.430	0.963	0.701	80.93	0.608
Sweden	(SKr)	45.97	9.481	7.503	2.227	0.971	2194	2.504	9.278	224.9	197.8	10	1.854	0.808	1.809	1.317	152.0	1.142
Switzerland	(SFr)	24.80	4.575	4.047	1.201	0.470	1194	1.351	5.005	121.3	101.3	5.394	1	0.436	0.976	0.711	91.99	0.916
UK	(£)	56.89	10.50	9.286	2.756	1.078	2715	3.098	11.48	278.2	232.4	12.38	2.294	1	2.239	1.630	188.1	1.414
Canada	(C$)	25.41	4.688	4.148	1.231	0.482	1213	1.384	5.129	124.3	103.8	5.528	1.025	0.447	1	0.728	84.02	0.632
USA	($)	34.90	6.439	5.696	1.691	0.661	1666	1.901	7.044	170.7	142.6	7.592	1.407	0.613	1.373	1	115.4	0.867
Japan	(Y)	30.24	5.580	4.936	1.465	0.573	1443	1.647	6.104	147.9	123.6	6.579	1.220	0.532	1.190	0.867	100	0.752
Ecu	-	40.24	7.424	6.566	1.949	0.763	1921	2.192	9.122	196.8	164.4	8.754	1.623	0.707	1.584	1.153	133.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.5914	0.5915	+0.0001	0.5937	0.5907	14,419	75,492
Sep	0.5953	0.5953	-	0.5971	0.5951	164	4,083
Dec	0.5993	0.5994	+0.0001	0.6001	0.5993	3	516

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.7095	0.7146	+0.0047	0.7152	0.7083	14,668	45,283
Sep	0.7162	0.7224	+0.0058	0.7230	0.7160	1,459	5,117
Dec	0.7293	0.7304	+0.0049	0.7293	0.7296	3	442

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.8652	0.8664	+0.0010	0.9712	0.8631	30,944	83,880
Sep	0.9773	0.9778	+0.0010	0.8814	0.9740	1,384	5,445
Dec	0.8890	0.8894	+0.0010	0.8904	0.8890	20	785

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	1.6238	1.6348	+0.0122	1.6364	1.6226	16,292	40,765
Sep	1.6208	1.6320	+0.0120	1.6350	1.6204	1,564	6,641
Dec	-	1.6292	+0.0120	1.6310	-	1	116

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.620	2.19	2.69	3.21	0.69	1.34	1.96
1.630	1.55	2.16	2.66	1.07	1.79	2.41
1.640	1.01	1.68	2.24	1.59	2.28	2.89

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
0.585	0.89	1.20	1.48	0.27	0.46	0.64
0.590	0.58	0.90	1.19	0.45	0.66	0.84
0.595	0.36	0.65	0.95	0.73	0.92	1.09

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

UK INTEREST RATES

LONDON MONEY RATES

May 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from May 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on May 23, 6.1145pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1997. Agreed rate for period May 26, 1997 to Jun 24, 1997, Scheme III 7.71pc. Reference rate for period Mar 28, 1997 to Apr 30, 1997, Schemes IV & V 6.450pc. Finance House Base Rate 6½pc from May 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	May 23	May 16
Bills on offer	£200m	£200m
Total of applications	£1218m	£1498m
Total allocated	£200m	£200m
Min. accepted bid	£98.470	£98.475
Allotment at min. level	2%	47%

	May 23	May 19
Top accepted rate	6.1368%	6.1167%
Ave. rate of discount	6.1156%	6.1061%
Average yield	6.2102%	6.2004%
Offer at next tender	£200m	£200m
Min. accept. bid 92 days	-	-

■ **Pound in New York**

May 23	— Close —	— Prev. close —
£ spot	1.6345	1.6245
1 mth	1.6335	1.6236
3 mth	1.6327	1.6217
1 yr	1.6238	1.6135

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition and the ICN Page in tomorrow's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Exeter Bank Limited	7.25	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	Financial & Gen Bank	7.00	Scottish Widows Bank	6.00
Bank of Baroda	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	United Bank of Kuwait	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Unity Trust Bank Plc	6.00
Bank of Ireland	6.25	●Hambros Bank	6.25	Western Trust	6.25
Bank of India	6.00	Heritable & Gen Inv Bk.	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	C. Hoare & Co	6.25	Yorkshire Bank	6.25
Barclays Bank	6.25	Hongkong & Shanghai	6.25		
Brit Bk of Mid East	6.25	Investec Bank (UK) Ltd	6.25		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	●Leopold Joseph & Sons	9.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Midland Bank	6.25		
Coutts & Co	6.25	NatWestminster	6.25		
Cyprus Popular Bank	6.25	●Rea Brothers	6.25		
		Royal Bk of Scotland	9.25		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

	May 23	May 22	May 21	May 20	May 19	1997 High	1997 Low	Since comp. High	Since comp. Low
FTSE 100	4661.8	4651.8	4642.0	4607.5	4645.2	4683.9	4056.6	4683.9	986.9
FTSE 250	4506.7	4501.5	4500.4	4489.0	4510.4	4729.4	4469.4	4729.4	1379.4
FTSE 250 ex IT	4518.9	4515.2	4514.7	4503.6	4525.8	4773.8	4503.6	4773.8	1378.3
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap ex IT	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Fledgling	1290.32	1290.48	1281.77	1292.56	1297.03	1346.52	1223.48	1346.52	31.14
FTSE Eurotrack 100	2367.19	2369.29	2364.38	2337.33	2342.61	2369.29	1893.80	2369.29	900.45
FTSE Eurotrack 200	2381.76	2385.22	2385.14	2359.41	2375.03	2385.22	1947.11	2385.22	938.62
FT 30	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Govt Securities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
92.5	Nil	[illegible]	[illegible]	[illegible]	Barlows	[illegible]	[illegible]
8	Nil	[illegible]	[illegible]	[illegible]	Bolton Grp Intl	[illegible]	[illegible]
195	Nil	[illegible]	[illegible]	[illegible]	Enterprise Inns	[illegible]	[illegible]
300	Nil	[illegible]	[illegible]	[illegible]	Oxford Molecular	[illegible]	[illegible]
50	Nil	[illegible]	[illegible]	[illegible]	Rockwood Mineral	[illegible]	[illegible]

pm premium.

BANK RETURN

BANKING DEPARTMENT — Wednesday May 21, 1997 — Increase or decrease for week

Liabilities: Capital; Public deposits; Bankers deposits; Reserve and other accounts — [illegible]

Assets: Government securities; Advance and other accounts; Premise, equipment and other secs; Notes; Coin — [illegible]

ISSUE DEPARTMENT

Liabilities: Notes in circulation; Notes in Banking Department — [illegible]

Assets: Other Government securities; Other Securities — [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

[illegible]

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

هكذا من الأصل

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (a)

Fidelity Funds - Contd.

Fleming Group (a)

Mercury Asset Management - Contd.

ACM Global Investment - Contd.

Credit Suisse Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Eagle Star Intl Life - Contd.

LUXEMBOURG (REGULATED)(**)

ACM Global Investment

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 23 / Sch)

BELGIUM/LUXEMBOURG (May 23 / Frs.)

CZECH REP (May 23 / Koruna)

DENMARK (May 23 / Kr)

FINLAND (May 23 / Mka)

FRANCE (May 23 / Frs.)

GERMANY (May 23 / Dm.)

GREECE (May 23 / Drachma)

ITALY (May 23 / Lira)

NETHERLANDS (May 23 / Fls.)

NORWAY (May 23 / Kroner)

POLAND (May 23 / Zloty)

PORTUGAL (May 23 / Escudo)

SPAIN (May 23 / Pta.)

SWEDEN (May 23 / Kronor)

SWITZERLAND (May 23 / Frs.)

TURKEY (May 23 / Tk Lira)

PACIFIC

JAPAN (May 23 / Yen)

HONG KONG (May 23 / H.K.$)

INDONESIA (May 23 / Rupiah)

MALAYSIA (May 23 / MYR)

NEW ZEALAND (May 23 / NZ $)

SINGAPORE (May 23 / S$)

AUSTRALIA (May 23 / Aus$)

SOUTH KOREA (May 23 / Won)

TAIWAN (May 23 / TW $)

THAILAND (May 23 / Baht)

AFRICA

SOUTH AFRICA (May 23 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 23 / Can $)
4 pm close

MONTREAL (May 23 / Can $)
4 pm close

INDICES

	May 23	May 22	May 21	1997 High		1997 Low	
Argentina							
General(29/12/77)	22118.06	22107.35	22108.61	22118.06	23/5	18237.37	2/1
Australia							
All Ordinaries(1/1/80)	2563.9	2547.8	2543.2	2583.90	23/5	2282.20	1/4
All Mining(1/1/80)	935.4	940.1	938.7	987.10	24/2	878.40	16/4
Austria							
Credit Aktien(30/12/84)	427.74	427.83	429.25	429.25	21/5	374.40	9/1
Traded Index(2/1/91)	1290.70	1287.19	1290.11	1290.78	23/5	1130.22	9/1
Belgium							
BEL20(1/1/91)	2267.78	2245.54	2247.83	2267.78	23/5	1871.05	2/1
Brazil							
Bovespa(29/12/83)	10764.0	10745.0	10715.0	10794.88	23/5	0.00	29/4
Canada							
Metals Minls(1975)	5575.24	5463.83	5452.02	5891.75	10/3	4945.98	11/4
Composite(1975)	6421.50	6336.0	6307.10	6421.50	23/5	5678.30	14/4
Portfolio§§(4/1/83)	3268.03	3217.27	3200.29	3268.03	23/5	2846.02	11/4
Chile							
IGPA Gen(31/12/80)	5491.32	5447.25	(c)	5491.32	23/5	4812.42	2/1
Denmark							
CopenhagenSE(3/1/83)	578.36	577.22	581.24	581.24	21/5	470.14	2/1
Finland							
HEX General(28/12/90)	3120.08	3092.12	3097.71	3120.08	23/5	2483.28	2/1
France							
SBF 250(31/12/90)	1824.38	1813.68	1837.34	1838.29	16/5	1533.19	2/1
CAC 40(31/12/87)	2762.90	2741.65	2786.35	2786.35	21/5	2258.97	2/1
Germany							
FAZ Aktien(31/12/58)	1230.65	1231.34	1227.48	1231.34	22/5	986.21	2/1
Commerzbank(1/12/53)	3607.1	3609.4	3601.3	3609.40	22/5	2875.90	2/1
DAX‡(30/12/87)	3602.19	3579.42	3598.09	3604.55	16/5	2848.77	2/1
Greece							
Athens SE(31/12/80)	1727.70	1693.85	1639.01	1727.70	23/5	954.54	2/1
Hong Kong							
Hang Seng(31/7/64)	14331.68	14212.00	14235.52	14331.68	23/5	12055.17	3/4
India							
BSE Sens.(1979)	3706.37	3730.78	3735.01	3944.61	4/3	3226.34	2/1
Indonesia							
Jakarta Comp.(10/8/82)	658.52	(c)	654.08	712.80	26/2	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3265.25	3248.43	3248.30	3265.26	23/5	2725.07	2/1
Italy							
Banca Comm Ital(1972)	775.86	779.24	784.29	787.71	10/2	642.65	2/1
MIB General(2/1/87)	1169.0	1173.0	1181.6	1197.80	10/2	991.00	2/1
Japan							
Nikkei 225(16/5/49)	20009.00	19877.39	19841.98	20488.75	19/5	17303.65	10/1
Nikkei 300(1/10/82)	288.07	285.03	285.13	290.64	6/5	251.04	27/1
Topix(4/1/68)	1489.89	1476.93	1475.89	1512.83	19/5	1320.82	10/4
2nd Section(4/1/68)	1758.77	1748.83	1748.64	1829.21	6/1	1518.09	15/4
Malaysia							
KLSE Comp.(4/4/86)	1078.2	1071.03	(c)	1271.57	25/2	1041.27	15/5
Mexico							
IPC(Nov 1978)	(u)	3939.52	3974.42	3989.52	22/5	3089.40	2/1
Netherland							
CBS TtlRtnGen(End 83)	943.7	939.6	941.0	943.70	23/5	738.80	2/1
CBS All Shr(End 83)	545.6	543.2	544.2	545.60	23/5	429.00	2/1
New Zealand							
Cap. 40(1/7/86)	2303.69	2305.74	2286.30	2449.21	20/1	2207.48	1/4
Norway							
Oslo SE(Ind)(2/1/83)	1957.86	1945.59	1933.54	1957.86	23/5	1638.03	2/1
Philippines							
Manila Comp(2/1/85)	2598.30	2586.69	2538.97	3447.50	3/2	2488.38	20/5
Portugal							
BVL 30(4/1/93)	2840.42	2850.01	2870.81	2908.28	15/5	2165.57	2/1
Singapore							
SES All-S'pore(2/4/75)	497.25	499.65	(c)	573.03	17/2	479.94	29/4
South Africa							
JSE Gold(28/9/78)	1192.1	1205.5	1214.1	1698.16	27/2	1181.60	2/5
JSE Indl.(28/9/78)	8312.1	8352.0	8386.2	8588.70	8/5	7689.50	2/1
South Korea							
KoreaCmpEx(4/1/80)	730.53	724.38	737.71	737.71	21/5	611.05	7/1
Spain							
Madrid SE(30/12/85)	558.90	558.10	580.10	580.10	21/5	434.64	2/1
Sweden							
AffarsvardnGen(1/2/37)	2906.0	2870.2	2872.8	2906.80	23/5	2378.50	2/1
Switzerland							
SMI Index(1/7/88)	5181.0	5176.4	5178.6	5181.08	23/5	3822.40	7/1
SPI General(1/6/87)	3272.85	3266.8	3268.35	3272.85	23/5	2806.22	6/1
Taiwan							
WeightedPr.(30/6/66)	8144.38	8150.66	8022.89	8681.72	26/4	6844.75	6/1
Thailand							
Bangkok SET(30/4/75)	581.13	581.39	596.19	858.87	22/1	557.87	15/5
Turkey							
IMKB Nat 100(1986)	1467.0	1471.0	1509.0	1654.00	21/3	996.00	2/1
WORLD							
MS Capital Ind(1/1/70)	902.3*	896.8	902.0	902.30	23/5	794.50	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2367.8	2369.29	2364.39	2369.29	22/5	1880.80	2/1
FTSE E 100(26/6/90)	2009.27	2002.98	2013.07	2013.07	21/5	1582.96	2/1
HSBC JC Drgn(31/12/88)	(u)	406.83	405.46	429.46	20/1	381.54	29/4
ING Brngs Emrg(7/1/92)	176.59	176.84	176.24	181.33	28/2	159.74	3/1

INDEX FUTURES

	Open	Sett.Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 × index)							
May	2737.0	2762.0	+28.0	2769.0	2737.0	15,801	23,567
Jun	2711.0	2737.5	+28.5	2742.0	2711.0	2,428	29,397
DAX							
Jun	3585.0	3633.0	+53.0	3639.0	3580.0	16,422	149,634
Sep	3609.0	3659.0	+52.0	3658.5	3607.0	136	9,584
OMX							
May	2247.25	2270.00	+24.00	2270.00	2247.25	4,193	6,068
Jun	2256.25	2295.00	+42.00	2297.00	2256.25	6,098	21,849
SOFFEX							
Jun	5175.0	5173.8	+18.4	5182.5	5154.0	2,782	22,595
Jul	5164.0	5178.0	+63.6	5164.0	5164.0	7	1,460

US INDICES

Dow Jones	May 23	May 22	May 21	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7345.91	7258.13	7290.69	7345.91 (23/5)	6391.69 (11/4)	7345.91 (23/5/97)	41.22 (8/7/32)
Home Bonds	102.26	102.10	102.22	103.63 (19/2)	101.09 (14/4)	106.77 (18/10/93)	54.99 (1/10/81)
Transport	2683.37	2660.09	2662.54	2683.37 (23/5)	2222.07 (2/1)	2683.37 (23/5/97)	13.23 (8/7/32)
Utilities	220.56	218.28	220.11	240.86 (22/1)	208.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7348.79 (7348.79) Low 7210.33 (7210.33) (Theoretical♦)
Day's high 7310.08 (7310.06) Low 7242.47 (7242.47) (Actual♦)

Standard and Poors	May 23	May 22	May 21	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	847.03	835.66	839.35	847.03 (23/5)	737.01 (2/1)	847.03 (23/5/97)	4.40 (1/6/32)
Industrials	989.55	986.04	991.23	999.55 (23/5)	865.42 (11/4)	999.55 (23/5/97)	3.52 (30/6/32)
Financial	94.68	93.30	93.34	97.26 (10/3)	80.75 (2/1)	97.25 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	440.28	434.66	436.21	440.28 (23/5)	399.47 (11/4)	440.28 (23/5/97)	4.54 (25/4/42)
Amex Comp.	597.94	593.73	592.08	603.63 (10/3)	541.20 (28/4)	617.61 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1389.72	1372.59	1373.75	1389.72 (23/5)	1201.00 (2/4)	1389.72 (23/5/97)	54.87 (3/10/74)

■ RATIOS

	May 16	May 9	May 2	Year ago
Dow Jones Ind. Div. Yield	1.71	1.71	1.73	2.17

	May 21	May 14	May 7	Year ago
S & P Ind. Div. yield	1.67	1.68	1.72	1.83
S & P Ind. P/E ratio	23.39	23.99	23.33	22.71

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Westinghse	17,119,600	18⅝	+1⅞
Seagate Tch	11,279,300	40	-2⅝
Philip Mrrs	8,494,400	45⅝	+½
AT&T	6,750,200	36⅝	+¾
Cardinal H	5,702,400	57¾	+4¼
Wst Digital	5,659,200	52⅞	-4½
Gen Elec	5,427,300	61⅛	+⅝
Micron Tech	4,827,600	38⅝	+2
Pepsico	3,739,200	36⅛	+1⅛
Mirage Res	3,027,100	24	-¾

■ TRADING ACTIVITY

● Volume (million)

	May 23	May 22	May 21
New York SE	405.714	416.231	527.656
Amex	15.635	17.279	17.436
NASDAQ	(u)	572.059	688.607
NYSE			
Issues Traded	3,309	3,351	3,348
Rises	1,875	1,278	1,423
Falls	619	1,179	1,117
Unchanged	819	896	808
New Highs	206	154	178
New Lows	13	9	9

■ S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	840.05	847.75	+7.50	852.00	839.45	59,515	172,087
Sep	851.60	856.35	+7.60	861.00	850.40	2,529	12,909

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	19950.0	20030.0	+180.0	20140.0	19870.0	15,418	232,297
Sep	19990.0	20050.0	+120.0	20100.0	19920.0	353	15,626

Open interest figures for previous day.

– Sat May 17. Taiwan Weighted Price 8141.12; Korea Comp Ex 706.25. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPI, Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins, DAX – 40 1,000; SMI – 1500; JSE Gold – 255.7; JSE 25 Ind – 264.3; IMKB Nat 100 – 1; NYSE All Common – 50; Stand 0 Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: May 23 - 3621.72 +45.28. † Correction. ' Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, May 23, 1997

	Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	10.6m	349	+6
Mitsubishi Hvy	5.3m	863	+6
Sumitomo Mtl Ind	4.7m	311	+12
Canon	3.9m	2830	+130
Nissho Iwai	3.9m	467	-4
NKK Corp	3.5m	252	
Toyota Motor	3.5m	3420	+80
Kawasaki Steel	3.3m	356	
Shinko Electric	3.2m	367	+52
Bk Tk-Mitsubishi	3.2m	2120	+30

Prices supplied by Extel, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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NEW YORK STOCK EXCHANGE PRICES

4 pm close May 23

- A -

1997 High	1997 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32	24¼	AAR x	0.48	1.5	24	232	21⅛	30¾	31⅛	+⅜
43	33⅛	AMP x	1.04	2.6	31	7598	40	39⅝	39⅝	-⅛
98½	78¼	AMR			7	2994	u99¾	97¼	99⅛	+2
37⅝	31½	ASA x	1.20	3.8	21	508	21¾	d31½	21¾	
67⅛	49¾	AbbtL	1.00	1.7	25	6074	64⅛	63½	64	+⅝
17⅝	14⅛	Abitibi Pr	9.48	3.2	9	356	u18⅛	17½	18	+⅜
19¾	17⅜	ABM Ind	0.40	2.0	18	411	19⅝	19¼	19⅝	+⅜
23	17¾	Acptnce Ins			16	147	20½	20¼	20½	+¼
68¾	58⅛	ACE Ltd	0.80	1.4	10	840	62⅜	61⅛	62⅛	+⅛
10¼	10	ACM Gvt In x	0.90	0.8	11	141	10¼	10⅛	10¼	+⅛
7⅝	7	ACM GvOpp x	0.63	8.5		18	7½	7⅜	7⅝	-⅛
8⅞	9¼	ACM Man x	0.90	6.6		95	9⅝	9½	9½	-⅛
10⅝	9¼	Acme Elect				61	6¾	6⅝	6⅜	
20	13	Acme Mills				48	15⅝	15⅛	15⅝	+⅜
17⅞	14	ACNielsen			39	807	17	16⅞	16⅞	-¼
37⅛	27¼	Acordia x	0.68	2.2	17	324	36½	35¾	35⅞	-⅜
29¾	21⅛	Acuson				2383	26⅛	25⅞	26	
21⅞	16⅛	Adams Expr x	0.66	2.3	1	308	21¾	21⅛	21⅛	+¼
48½	24⅞	AdvMic				6599	41⅞	40⅞	41	
10⅞	10⅞	Advest Grp	0.03	0.2	12	630	d17⅛	15⅞	17	+1⅞
14⅝	11⅛	Advo Inc			16	329	14	13⅞	14	
[illegible]										

Continued on next page

NYSE PRICES

4 pm close May 23

Continued from previous page

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. xis-stock. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close May 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NY TimA	0.64	22	1186	46¾	46½	46 11/16	+3/16
NVR		7	119	15 1/16	14 15/16	15 1/16	+3/16
Pegasus G		66	1220	6¾	6 9/16	6⅝	-1/16
Perini		8	92	7⅛	7	7⅛	
PMC	1.24	11	31	14	13⅞	15⅞	
RegalBrad			z0	25⅞	25⅞	25⅞	
SJW Corp x	2.28	12	23	54¾	54½	54½	-½

NASDAQ NATIONAL MARKET

4 pm close May 23

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	32	79	13⅞	12¾	13⅛	+⅜
Kaman Cp	0.44	29	118	13 21/32	13⅝	13 21/32	+3/32
Kelly Sv	0.84	14	130	28¾	27¼	28¾	+1
Kimball	1.84	14	637	39¼	38⅝	38⅞	-1/16
KLA-Tn		25	9000	50⅛	48⅝	49⅝	+⅞
Koll A			1042	½	d 15/32	½	-1/32
Komag		19	11615	31 13/16	30¾	31¼	-⅝
Kulicke S			5872	32½	31	32½	+⅜

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow		12	176	16⅜	15⅞	15⅞	
Rallys			227	3	2 15/16	3	+1/16
Raymond	0.25	16	340	u32¼	31⅞	32	+¼
RCSB Fin	0.60	14	10454	41¼	40	41⅛	+⅞
Read-Rite			57378	20⅞	d19⅝	19⅞	-2⅛

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		37	7864	53⅛	51¾	53	+⅞
Xircom		21	5425	14¾	14⅜	14⅝	+⅜
Xoma Corp			1435	5⅛	4 15/16	5⅛	+3/16
Yellow			2620	19¾	19⅜	19¾	+¼
York Rsch		15	590	7 13/16	7⅝	7⅝	-3/16
ZionsUtah	0.44	17	3357	31⅞	30½	31¼	-⅛

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5.25		600	8.25	7	Esprit Telecom ADS	US$7.375	+0.125	4340	12.25	5.375
Artwork Systems	US$11		126686	11	9.5	Innogenetics	US$11.375	+0.125	39670	12.75	10.375
Chemunex	FFr19		15000	18	16	Mercer Internl.	US$10.125		9	11.75	8.125
Dr Solomon's ADS	US$21.75		6	26.5	16.875	PixTech	US$4.5		6	6.125	4.25

Prices for 23/5/97. Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
BG	♣W	200½xd	3.9	14.5	0.7	Jul Dec	6.5	3448
Centrica		65¾	2.8	–	–	–	–	2051
International Energy	♣	94xd	–2.1	4.45	2.3	Jan Nov	6.5	5133

ENGINEERING - Cont.

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Vitec	♣	598	–3.9	12.1	4.5	Jan Jul	18.11	4484
Vosper Thorn	♣	889½	0.1	26.0	2.4	Jan Aug	18.11	4874
Wagon Indl	♣	251	–4.7	19.75	1.7	Feb Oct	13.1	4816
7.25p Cny Prf		92xd	–4.0	7.25	–	Jan Dec	19.5	5844
Weir	♣	245xd	–3.0	6.9	2.2	Jan Nov	1.4	4453
Wellington	♣	232½xd		6.1	2.1	May Nov	17.3	4188
Wellman	♣	24¼	–2.0	1.8	2.5	Feb Aug	30.12	4457
Wescol	♣	53½xd	–5.3	1.1	2.7	Jan Dec	21.4	1388
Whatman	♣	470	–1.5	13.3	2.5	May Nov	7.4	4483
Widney	♣	32½	—	3.5	0.9	Apr Oct	3.3	4469

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind R		£25		0545u	ϕ	May Oct	2.9	-
Barlow	‡†	£8½	-7.3	0108c	9.3	Jan Jul	9.12	-
Gold Fds Prop R	†	134½	0.5	085c	1.5	Feb Sep	29.8	-
SA Brews		£17¼	-1.6	0287c	ϕ	Jul Feb	2.12	4113
Standard Bank		£29½	0.2	0284c	3.1	Sep Mar	-	-
Tiger Oats	†	1021	-6	0190c	2.8	Jan Jul	10.8	-
Tongaat-Hulett		755½	-1	0142c	ϕ	Jan Jun	8.12	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates c Cents. d Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. 4 Dividend excludes a special payment. I Indicated dividend: cover relates to previous dividend. s Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97 G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1998 L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Comino, Dentmaster, Dragons Hlth, Northstar & Wrts (AIM), Aurora, Close Bros Prtd VCT, Martin Currie Inc, Cap and Zero Div, (InvT). Newcastle Utd (LeH), Sun Res (OIE), Donatantonio (ReFd), Heaf's, Partners Hldgs (ReGn). Deletions: Abtrust Pref Inc, Pilot Inv Wrts (InvT), Fiscal Props** (Prop).

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FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations. 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements. Company Focus (FT news) £8.45. Focus Plus (FT and Investors Chronicle news) £10.95.

To order, call 0121 200 4878.

Reports published by ShareFinder.

FT Cityline

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

FT GUIDE TO THE WEEK

MONDAY 26

Reassuring Japan

Mrs Margaret Beckett, UK trade and industry secretary, arrives in Japan for a three-day visit. She will meet senior officials of Japan's Ministry of International Trade and Industry and the Finance Ministry, with the aim of reassuring Japan about the UK's business climate under the new government, and promoting British exports. Her meeting with Dr Shoichiro Toyoda, chairman of the Keidanren, Japan's main industry body, may raise interesting issues. Dr Toyoda is also honorary chairman of Toyota, the carmaker. This year a senior colleague of his caused a political storm in the UK by saying Toyota would reconsider further inward investment there if the UK did not join the European monetary union.

Hazardous chemicals pact

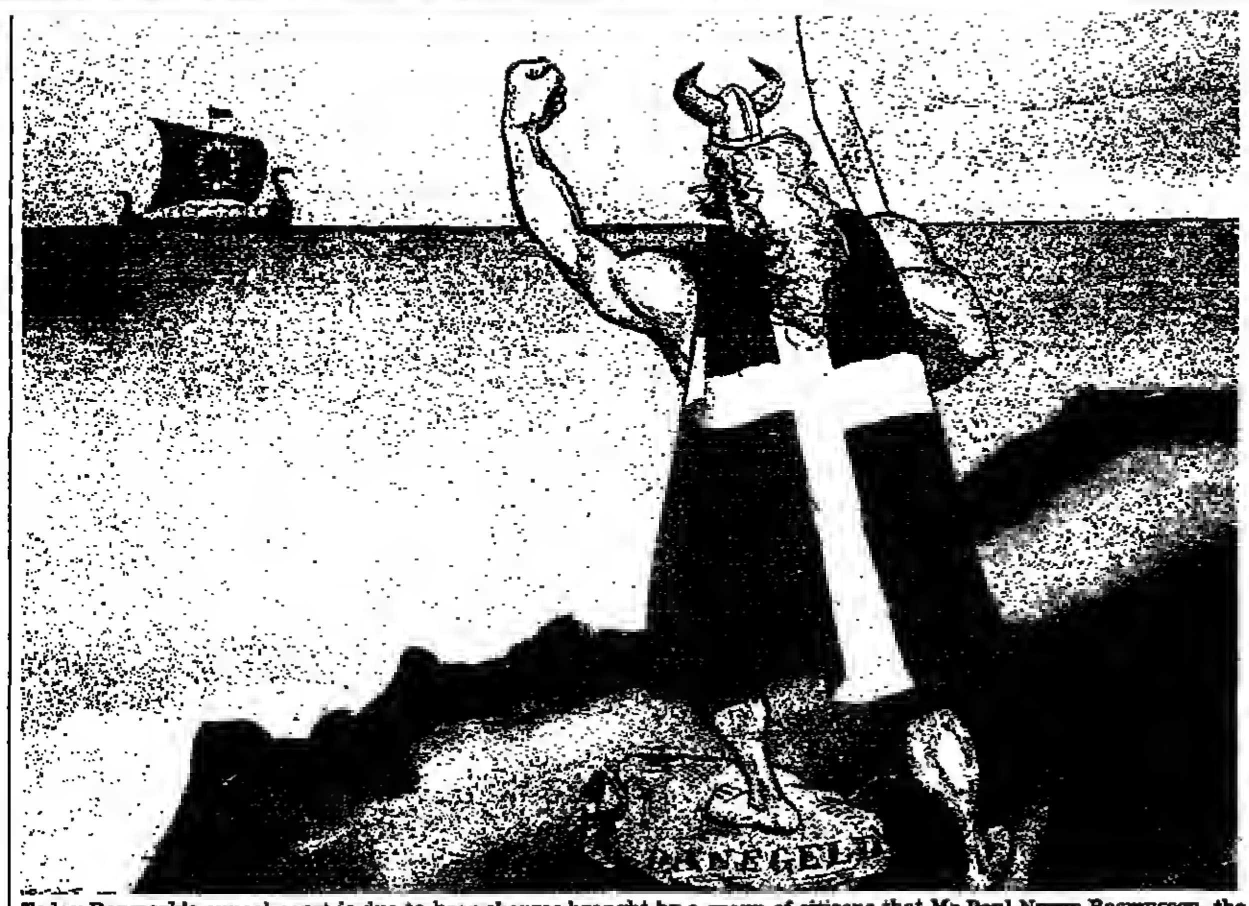
Governments begin a week of talks in Geneva on a new international treaty to ban the import of hazardous chemicals unless agreed by the importing country. The pact, due to be signed next December, would make mandatory the existing voluntary procedure of Prior Informed Consent, now used by more than 150 nations. Still to be decided is the list of hazardous chemicals to be included in the treaty, which is sponsored by the United Nations Environment Programme and the UN Food and Agriculture Organisation. Despite the voluntary scheme, dangerous chemicals (including some banned in the west) are still exported to developing countries unable to handle them.

OECD agenda

Finance, economy and trade ministers of the 29 members of the Organisation for Economic Co-operation and Development start their two-day annual meeting in Paris. Their agenda is expected to include unemployment, international regulatory reform, trade and investment and a planned initiative to combat bribery and corruption. The ministers will also commemorate the 50th anniversary of the Marshall Plan, the US-led programme of economic reconstruction of Europe after the second world war, which led to the establishment of the OECD.

Maastricht hearing

Denmark's appeal court is due to hear charges brought by a group of citizens against Mr Poul Nyrup Rasmussen, the Social Democrat prime minister, whom they accuse of violating the Danish constitution by signing the Maastricht treaty. They maintain that by committing Denmark to European Union membership under the Maastricht treaty of May 1993, Mr Rasmussen transferred more of the nation's sovereignty than was permitted by the constitution.



Today Denmark's appeal court is due to hear charges brought by a group of citizens that Mr Poul Nyrup Rasmussen, the prime minister, violated the constitution by signing the Maastricht treaty

FT Survey

Turkey

Tennis

French Open (to June 8)

Public holidays

Bahamas, Bermuda, Georgia, Gibraltar, UK, US (Memorial Day), Zimbabwe

TUESDAY 27

Historic pact

Nato and Russia are to sign a historic pact in Paris which signalled the Kremlin's acceptance of the western military alliance's planned eastward enlargement. The deal followed months of negotiations. Both western and Russian leaders said it would reassure Moscow that Nato expansion did not constitute a threat while allowing the alliance to move into eastern Europe. President Boris Yeltsin and leaders from 16 Nato member states are due to attend the ceremony. Russia had been eager to conclude an agreement before Nato invites new members to join at its July summit in Madrid. Leading contenders for admission are Poland, Hungary and the Czech Republic.

EU gas competition

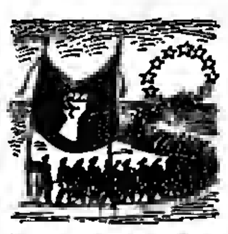
EU energy ministers will hold their first meeting since December, with discussions likely to be dominated by attempts to reach agreement on plans to open the EU's $100bn-a-year gas market to cross-border competition. Officials hope ministers might agree on the broad framework today, clearing the way for a special meeting next month to decide on the extent and speed of market opening. But talks could be hindered by French political uncertainty, because of elections, and by disagreements over how to deal with the problem of European gas companies which have 20- or 30-year contracts with gas suppliers, and could see their market share reduced by competition.

FT Survey

Spain

WEDNESDAY 28

Unemployment protests



European trade unions are staging a day of action to protest at mass unemployment across the continent. The British Trades Union Congress is holding meetings across the country and Mr Robin Cook, the UK foreign secretary, will address union members in London. A big march is planned in Brussels by the European Trade Union Confederation. Demonstrations are planned in Paris and in German cities as well as in Spain and Italy. The gatherings will provide some indication of what power and influence European labour can still mobilise in the run-up to the EU's Amsterdam summit conference on the jobs issue.

Clinton visits Europe

The biennial transatlantic summit between the EU and US takes place in The Hague, where President Bill Clinton will meet Mr Wim Kok, prime minister of Netherlands, holder of the rotating EU presidency, and Mr Jacques Santer, European Commission president. Leaders will be signing two bilateral co-operation agreements on customs co-operation and control of chemical precursors to illegal drugs. The two sides may complete negotiations on a mutual recognition agreement, involving removing non-tariff barriers on $40bn of traded goods. Discussions are also expected on the former Yugoslavia and Russia, relations with Cuba, Iran and Libya. Mr Clinton is expected to attend the 50th anniversary commemoration of the US Marshall plan for the reconstruction of post-war Europe.

Latin American focus

Demand for Latin American art has been rising steadily in recent years and this week in New York both Sotheby's and Christie's are holding auctions. The top lot at Christie's this evening is "Paquete Azul" (Blue Package) by the contemporary Chilean artist Claudio Bravo. The painting, of a blue package, carries a top estimate of $600,000. At Sotheby's on Thursday "Sandias" by the Mexican artist Rufino Tamayo is expected to sell for about $1m. This still-life of water-melons and apples, painted in 1951, is regarded as one of his most significant works. "Paysage de Toledo", a large landscape painted in 1917 by Diego Rivera, could make $800,000.

Ruling on Korean rights

A court in Osaka is due to rule on a case brought by Korean residents of the Japanese city who are seeking voting rights in local elections. Osaka has a large Korean community. Many of them are second or third generation descendants of workers who came to Japan when Korea was a Japanese colony, or who were brought over as forced labour during the war. Despite their long residence, many do not have Japanese citizenship, and so have been barred from participating in politics.

FT Surveys

Luxembourg, FT Guide to Preparing for Emu, Croatia

Soccer

European Cup final between Juventus and Borussia Dortmund in Munich

THURSDAY 29

Pulp futures debut

London trading of pulp futures starts today for the first time. OMLX, the London-based securities and derivatives exchange operated by OM group of Sweden, says the contract will give participants in the pulp and paper industry – either sellers or buyers – a way to lessen exposure to price fluctuations through hedging. More than 15 wood pulp producers and consumers are to start dealing in the electronically-traded contract, called Pulpex, which is a direct challenge to the wood pulp futures market started by Finland's Futures and Options Exchange.

Indonesian vote

Indonesian voters are set to go to the polls today to vote in parliamentary elections after a tightly controlled campaign, marred by violent clashes between rival party supporters. Golkar, President Suharto's ruling party, is set to win a sixth five-year mandate, clearing the way for presidential elections next year. Golkar said it expected to win 70 per cent of the vote, defeating the Islam-oriented United Development Party and Indonesian Democratic Party.

Nato prepares for summit

Nato foreign ministers begin an informal two-day meeting in Lisbon to discuss enlarging the alliance and to prepare for the Madrid Nato summit in July. They are expected to agree to step up military manoeuvres by the Partnership for Peace, an arrangement that provides for military co-operation between Nato and former Eastern bloc states. The proposals include more frequent information exchanges and strengthening ties between partners and Nato's command structure.

Clinton talks to UK cabinet

President Bill Clinton is to address the British cabinet in a move designed to symbolise the close relations between the two countries. This would be the first time a foreign leader has addressed a British cabinet.

Public holidays

Austria, Bolivia, Brazil, Chile, Germany (some states), Liechtenstein, Monaco, Poland, Portugal, Vatican City

FRIDAY 30

Asean enlargement talks

Foreign ministers of the seven member nations of the Association of South East Asian Nations (Asean) meet in Kuala Lumpur (to May 31). They are due to discuss the proposed admission into the group of Burma, Cambodia and Laos, which are expected to be admitted this year in spite of objections from the US and European countries.

FT Survey

Management Buy-Outs

SATURDAY 31

Pope to visit Poland

Pope John Paul II starts a 10-day visit to his native Poland, his seventh since he started his pontificate 19 years ago. The object of the visit is religious but the Pope is due to meet the presidents of Poland, Germany, the Czech Republic, Hungary, Slovakia and Lithuania at Gniezno to spur central Europe's drive for integration with the EU.

Soccer

Poland play England in a World Cup qualifying match at Chorzow.

FT Survey

FT Guide to Retirement Planning

SUNDAY 1

French election

Second round of the French parliamentary elections. The first round was held yesterday (May 25).

Bolivian contest

Septuagenarian General Hugo Banzer is the front-runner in today's general elections in Bolivia, which mark 15 years of uninterrupted democracy. Although the former dictator may emerge as first-round leader, he will be far short of the 50 per cent required for outright victory. The six principal parties in congress will then decide which of the two leading candidates becomes president.

Compiled by Bob Vincent.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: Public holidays in the US and the UK today, but German CPI data from several states expected to be released, along with trade and current account figures for March.
Tuesday: US consumer confidence should be led higher by the recent performance of Wall Street, while house sales are likely to show sustained strength. French household consumption in April could pick up by enough to raise the annual growth rate to 0.4 per cent.
Wednesday: The Bundesbank meets, although there are no expectations of a change to official interest rates. Japanese industrial production for April to remain firm, following the MITI forecast.
Thursday: The UK deficit in visible trade should continue to bulge, towards £1bn ($1.6bn) for March, while non-EU trade in April shadows March's £606m figure.
Friday: A slew of data from Japan, led by unemployment and Tokyo's May CPI. But the large retail store sales figures for April will show the effects of the rise in consumption taxes, and record a sharp fall.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Apr supermarket sales**		8.4%		Canada	Apr raw materials price index	-1.4%	-1.0%
May 26	Japan	Apr department store sales**		23.1%	Thur	Japan	Apr industrial production†	0.6%	-0.3%
	Germany	Apr import prices*	0.2%	0.0%	May 29	Japan	Apr shipments†		0.8%
	Germany	Apr import prices**	2.5%	2.7%		Italy	Apr hourly wages	4.5%	4.5%
	France	Apr consumer price index final*	0.1%	0.05%		UK	Mar global visible trade	-£900m	-£758m
	France	Apr consumer price index final**	1.0%	0.95%		UK	Apr ex-EU visible trade	-£600m	-£606m
	Germany	May Hesse cost of living*		-0.2%		US	Initial claims 24 May	321K	322K
	Germany	May Hesse cost of living**		1.1%		US	State benefits 17 May		2299K
	Germany	May N Rhine Westphalia cost living*		-0.1%		Canada	Mar fix-weight employee earnings**	2.5%	2.4%
	Germany	May N Rhine Westphalia cost living**		1.6%		US	M2 week ended 19 May	$5.3bn	-$2.3bn
Tue	France	Apr household consumption†*	0.6%	0.0%		Nthlands	Q1 gross domestic product prelim***	0.5%	0.5%
May 27	Sweden	Mar industrial production**	5.8%	7.8%		Nthlands	Q1 gross domestic product prelim**	3.2%	3.0%
	US	BOT-Mitsubishi 24 May		0.3%	Fri	US	Q1 gross domestic product prelim	6.0%	5.6%
	US	Apr existing home sales	4.10m	4.11m	May 30	US	Q1 gross domestic product price indx	2.7%	2.7%
	US	May consumer confidence	117.5	116.8		Japan	Apr consumer price index (nation)**	1.8%	0.5%
	US	Redbook 24 May		0.8%		Japan	Apr unemployment rate	3.2%	3.2%
	Japan	May wholesale price index 2nd 10 days		-0.1%		Japan	Apr retail sales**		14.1%
	Japan	Apr BOJ corporate services prices**		-0.4%	During the week...				
	Japan	Apr BOJ corporate services prices*		0.2%		Italy	Apr M2 3-month average	7.4%	7.3%
Wed	Germany	Mar trade balance	DM7.5bn	DM9.2bn		Italy	Apr total bank lending	2.5%	2.2%
May 28	Germany	Mar current account	DM1.0bn	-DM1.5bn		Germany	Apr Icon consumer climate		89.0
	France	May INSEE industrial survey	-1.0	-3.0		Germany	May prelim cost of living* west	0.2%	-0.2%R
	US	Apr durable orders	1.0%	-3.0%		Germany	May prelim cost of living** west	1.2%	1.3%R
	US	Apr durable shipments		0.7%		Italy	Mar trade balance (payments)		L1500bn
	Canada	Apr industrial prod price index*	0.3%	0.2%					

*month on month, **year on year, ***qtr on qtr, †seasonally adjstd. *Statistics, Standard & Poor's MMS*

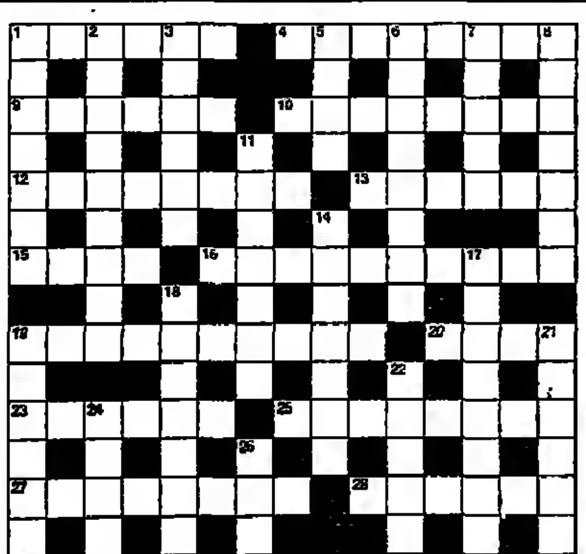
MONDAY PRIZE CROSSWORD
No.9,384 Set by DANTE

ACROSS

1 Very blue swan with a high voice (6)
4 To reverse excessively in a dance is silly (8)
9 An indistinct impression of untidiness (6)
10 Some pressure in factory with single refreshment counter (8)
12 I acted in variety show (8)
13 Be still shivering (6)
15 Badly delivered over to knock about (4)
16 Untrustworthy advice for cheaper air travel (3-2-5)
19 An opportunity to put one in the picture? (6,4)
20 I love getting a thank-you letter (4)
23 I breathe fresh air in part of Spain and Portugal (6)
25 Reg gets entangled with metal wire (8)
27 The prototype of an oil-rig installation (8)
28 Sleeping fish? (6)
29 Sweetheart joins sergeant in dance (8)
30 A horse that's better in the long run (6)

DOWN

1 Sack for someone who takes money (7)
2 Legally under constraint to jump across (5,4)
3 There must be the will to provide it (6)
5 Forget to put it on the order (4)
6 Learnt to become easy-going (5)
7 Initially it may be uphill, even steep (5)
8 Item with which man covers a limb (7)
11 Runner allowed to enter the rerun heat (7)
14 She is seen in an evil environment looking shamefaced (7)
17 A mundane subject (9)
18 Possibly given tie in case (8)
19 Extra benefit one sort of bowler on cricket side provides (4-3)
21 Kick out married lover (7)
22 Is getting in support to stand one's ground (6)
24 In the border I can find heather (5)
26 Mineral used as a filler for dental cavities (4)



WINNERS 9,372: Miss M.A. Flack, Sawston, Cambs; N. Chandra, Washington DC, USA; Miss J. Cotterill, Wellesbourne, Warwicks; T. Penhale, Torquay, Devon.

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday June 5, marked Monday Crossword 9,384 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 9. Please allow 28 days for delivery of prizes.

Name..

Address..

Solution 9,372

JOTTER PAD

هكذا من الأصل